

EUROPE STARES ITS FUTURE IN THE FACE

The Bundesbank
Compromised or strengthened?
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Monetary union
Two steps forward, one step back
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'We must ratify Maastricht if we want to modify it'
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Survey
Kyushu defies the downturn
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FINANCIAL TIMES

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EUROPE'S BUSINESS NEWSPAPER

D8523A

Britain isolated over dropping of EFA project

Germany has persuaded Italy and Spain to support a halt to development spending on the disputed European Fighter Aircraft, but still needs approval from Britain, the fourth national partner in the venture, to end the project, according to officials in Bonn. Page 24

Sarajevo fighting flares Heavy fighting resumed in the Bosnian capital of Sarajevo, casting further doubts on the planned resumption of international peace talks in Geneva on Friday. Page 24

Harrods owners 'broke Takeover Code' The Fayed brothers were censured by the UK Takeover Panel for breaching the Takeover Code when they acquired the House of Fraser stores group, which includes the London store Harrods. The panel said statements they made during the 1985 takeover about their business interests and income-generating capacity may have created a misleading impression. Page 25

Assembly speaker on fraud charges French national assembly speaker Henri Emmanuelli, left, was charged with complicity in illicit influence-peddling. Emmanuelli is accused of receiving funds raised by front companies from construction businesses seeking preference in public tenders when he was treasurer of the Socialist party. He denies the charges. Page 4

Path to prison Ahmed Guzman Reynoso, leader of Peru's feared Sendero Luminoso (Shining Path) guerrillas, has been paraded on television in an effort to destroy the aura built up around him during 13 years in hiding. Page 24

Builders in Brussels alliance Four of Europe's biggest construction groups are to form a joint venture in Brussels to bid for large European infrastructure projects. Page 25

Germania jailed over immigrant's death Five east Germans were jailed for between two and four years for kicking to death an Angolan immigrant worker at Eberswalde near the Polish border in November 1990. A sixth offender will be sentenced later. Page 24

Uni Shareholders beleaguered Norwegian insurer, announced measures to restore confidence in the group and to strengthen the solvency of subsidiaries. The group's holding company was put into the hands of state administrators last month. Page 25

Road to recovery New car sales in west Europe rose by an estimated 3 per cent to 1.04m last month as registrations recovered in Germany, the single biggest European market. Page 4

Incense, motor and business services group reported a 25 per cent increase in interim profits despite tough economic conditions in many of its markets. Page 25; Lex, Page 24

UK Treasury to test markets The UK government's drive to contract out Civil Service operations to the private sector is concentrating on core Treasury functions including training and economic model building. Page 13

Students in gun battle Chittagong Medical College, Bangladesh, was closed after about 25 students were injured in a gunbattle among students trying to occupy college dormitories.

NEL Parsons, part of the Rolls-Royce Industrial Power Group, has won a \$100m order to supply three steam turbine generators for the Pulau Seraya power station in Singapore. Page 13

Middle East peace talks Israel presented Syria with new proposals when the Middle East peace talks resumed in Washington. Syria dismissed the document because it did not mention Israeli withdrawal from the Golan Heights.

Australian airlines merge Australia's international airline Qantas Airways formally merged with its domestic carrier Australian Airlines.

Dublin police in phone-tap probes Irish police are investigating allegations that the telephone of John Bruton, leader of the opposition Fine Gael party, was tapped. Prime minister Albert Reynolds said he found the latest reports "serious and personally distasteful". Page 4; End to Ulster speech ban urged, Page 13

Germany's small rate cuts dampen euphoria

By Our Foreign and Economics Staff

THE Bundesbank yesterday cut its official interest rates for the first time in nearly five years, but the size of the reductions disappointed European markets.

At a special council meeting in Frankfurt, the German central bank reduced the Lombard rate by 4 percentage points to 9.5 per cent and the discount rate by 1/4 point to 8.25 per cent.

The rate cuts were agreed in principle at the weekend as part of an unprecedented financial package finalised by European Community nations, and involving a 7 per cent devaluation of the lira in the European exchange rate mechanism.

The announcement, which followed months of intense pressure on Germany to ease borrowing conditions, led to sharp rises in European share and bond markets. It also caused investors to switch funds out of D-Marks and into dollars, in a development which reduced the recent strains in the ERM.

Some market observers, however, registered disappointment that the rate cuts were not greater. Optimism over the wider effects of the Bundesbank's policy change was also tempered by continuing nervousness on cur-

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rency markets ahead of Sunday's French referendum on the Maastricht treaty.

Mr Helmut Schlesinger, Bundesbank president, said the bank had been caught in a "foreign exchange trap" arising from its obligation to support the lira on currency markets under ERM rules. Thus it had pressed the Bonn government to request a realignment in the European Monetary System, the first since 1987.

In Britain, Downing Street said the cut in German rates, which effectively set the broad level of interest rates across Europe, had "probably brought forward the time when British interest rates will move". But there was no indication by monetary officials of any early moves to cut UK base rates, now at 10 per cent.

In London, the FT-SE 100 index

opened yesterday morning 98 points higher on anticipation of the rate cuts, but shed its early gains on news of their relatively modest size. It closed 51.2 higher at 2,422.1. The mood of optimism was shared on other European stock markets, with the bourses in Frankfurt, Paris and Milan closing between 3 per cent and 5 per cent higher.

On Wall Street, share prices were also buoyed by the stronger dollar and the possibility of another cut in US interest rates. At 3pm in New York, the Dow Jones industrial average was 56.47 points higher at 3,362.17.

Bonds also benefited on indications that borrowing costs across Europe may come down. German, Italian and French government bonds all gained up to 2 points, while UK gilts closed 1 1/2 points higher.

The D-Mark lost ground substantially to the dollar, after weeks in which it had gained on the US currency. The dollar, after hitting DM1.5155 yesterday before the news of the size of the Bundesbank's cuts, closed in London at DM1.4855, up nearly 4 pfennigs on Friday's London close.

Sterling peaked at DM2.8250 in early trading yesterday, and closed in London at DM2.8125, up more than 2 pfennigs on the Friday close. At this level it is less

than 3 pfennigs above its DM2.778 ERM floor against the D-Mark.

Belgium, the Netherlands, Austria and Switzerland - countries which traditionally closely follow the level of borrowing rates in Germany - all moved yesterday to cut their interest rates.

Speaking in Frankfurt, Mr Schlesinger said the decision to cut rates "was not an easy one for us". Last week's intervention by the Bundesbank to support the lira had led to flows into Germany of DM24bn (\$16bn), far more than in any previous currency crisis.

This explained why it was cutting rates as its contribution to alleviating exchange rate tensions, though German inflation was still too high and money supply targets not being met. About the size of the cut in the Lombard rate, he said: "With our targets for monetary policy there is no room for more."

Although Mr Schlesinger said the rate reductions could be seen as being in line with the needs of a weakening economy and as a gesture ahead of efforts in Bonn to bring about more moderate wage and fiscal policies, he stressed market pressures had forced the Bundesbank to act.

Bankers and economists had

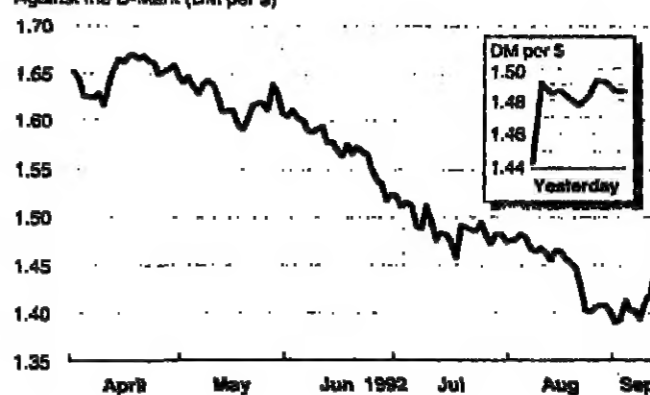
'There is no room for more'

Bundesbank president Helmut Schlesinger (right) yesterday in Frankfurt



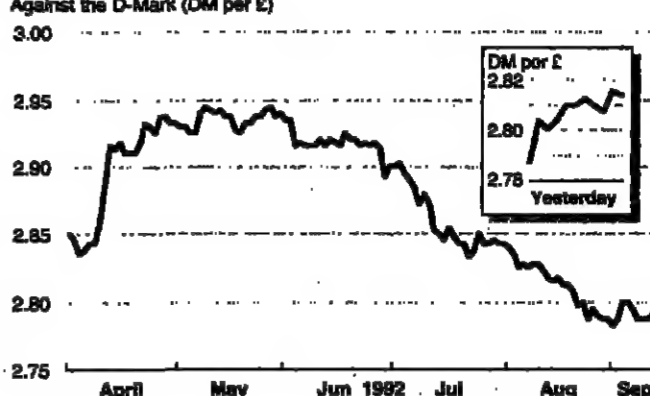
Dollar

Against the D-Mark (DM per \$)

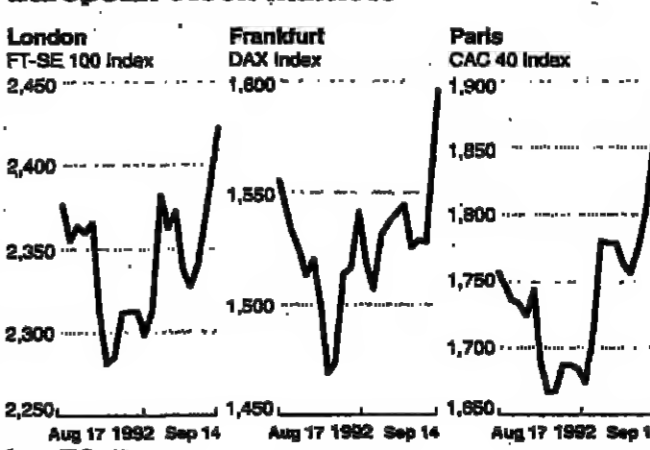


Sterling

Against the D-Mark (DM per £)



European stock markets



Scepticism and caution in Europe

By Emma Tucker in London

EUPHORIA across Europe that German interest rates were finally moving downwards was yesterday tinged with caution and scepticism. Although the cuts were heralded by the European Commission as an example of the European Community "pulling together", they were so slim many central banks felt they lacked room for monetary easing, and gains by other European currencies were limited.

"There is an element of confusion and perplexity," said Mr Steve Hannah, head of research at IBI International, the securities wing of the Japanese bank in London. "What has limited reaction to the German move is the feeling that it has only scratched the surface as far as the big issues facing Europe are concerned," he said.

In Germany, reaction in some quarters was profoundly sceptical, although others, worried about a German recession, were relieved at the cut in rates.

Continued on Page 24

Kohl paid secret Friday visit to the Bundesbank

By Andrew Fisher in Frankfurt, David Marsh in London and Quentin Peel in Bonn

MR HELMUT KOHL, the German chancellor, paid a secret visit to the Bundesbank on Friday to discuss a realignment of currencies in the European exchange rate mechanism and a cut in German interest rates.

Confirmation of the visit, which also involved Mr Theo Waigel, finance minister, and Mr Horst Kohler, state secretary for finance, emerged in Frankfurt yesterday.

It is likely to fuel accusations that the government put unprecedented political pressure on the independent central bank to persuade it to relax its high interest rate policy.

Bundesbank officials, however, are adamant that they were the ones who had to persuade the chancellor and his finance minister to support a full ERM realignment, hitherto blocked by other European Community governments such as France.

Indeed, senior government officials yesterday maintained that

Germany was ready to cut its interest rates - in exchange for a realignment - more than a week before the deal was finalised on Sunday.

Mr Helmut Schlesinger, Bundesbank president, said last night: "It is a misunderstanding to maintain that we were forced into interest rate cuts. We have accompanied several realignments, including that of 1987, with an interest rate reduction."

The visit by Mr Kohl was unannounced and reflects the great political sensitivity of the debate over interest rates and the German currency.

Mr Kohl has been under acute political pressure from President Francois Mitterrand of France, in particular, to persuade the Bundesbank to cut its high interest rates in advance of next Sunday's French referendum on the Maastricht treaty. However, France and Britain both insisted that interest rate cuts should come without a realignment of currencies, according to German sources.

Mr Schlesinger made clear yesterday that without an agree-

ment by Bonn to push for a realignment of currencies in the ERM, the central bank's monetary stabilisation policies would have been in jeopardy because of the huge volume of intervention needed to support the lira.

A number of commentators expressed alarm at the apparent loss of independence by the Bundesbank, including the German Savings Bank Association and Mr Hans-Peter Stihl, president of the German Chamber of Industry and Commerce. "The Chamber will be watching acutely to see how the independence of the Bundesbank is protected," Mr Stihl said.

American Express sells fund arm to Mellon for \$1.45bn

By Martin Dickson in New York

SHEARSON LEHMAN Brothers, the Wall Street securities firm owned by American Express, is selling The Boston Company, a private banking and investment services company, to Pittsburgh-based Mellon Bank for \$1.45bn.

Yesterday's announcement triggered fresh speculation on Wall Street that the disposal might merely be the prelude to the sale by American Express of Shearson itself or an offer of its stock to the public. American Express shares gained \$1 on the news to close at \$22. Mellon's fell 1 1/4 to \$40.

Shearson announced in August that it planned to sell The Boston Company, which has loans and other assets of about \$9bn and is involved in mutual fund administration, trust and custody services for institutional investors, institutional investment manage-

ment and private banking for wealthy individuals.

For Mellon Bank, the deal represents a big expansion of its existing, sizeable position in these fields. It will become one of the leading US providers of mutual fund administration services. The deal strongly reinforces Mellon's strategy of focusing on revenues from the provision of services as much as on lending activities.

The \$1.45bn price is higher than market expectations of about \$1.3bn and underscores the premium prices commanded by fund management and investment services companies at a time when many large financial institutions are trying to get more involved in these businesses because of their stable, growing earnings.

Shearson said it expected to book an after-tax gain of about \$150m from the sale, which would

also reduce goodwill by around \$100m and thus increase its tangible equity by \$250m.

The sale will also cut Shearson's assets sharply, giving its equity-to-assets ratio a large boost towards the level which analysts say is necessary for American Express to sell the company or float a tranche of its stock.

Mellon will pay \$1.301bn in cash, \$115m in the bank's common stock and \$37m in share warrants. It will fund the deal by issuing a further \$150m in common stock, \$150m in perpetual preferred stock and \$315m in senior debt. The bulk of the rest will come from retained earnings over the next three quarters.

The bank said it expected to book a one-time after-tax charge of \$112m for consolidation expenses. Excluding this, it expected the deal to be positive for earnings from 1993.

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Nick Faldo, three times winner of the Open Golf Championship and twice winner of the US Masters

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STOCK MARKET INDICES			
FT-SE 100	2,422.1	(+61.2)	
DAX	1,600	(+28.5)	
FT-SE Europe 100	1,773.7	(+40.2)	
FT-SE Asia	1,463.1	(+19.0)	
FT-SE World Index	1,423.3	(+1.7)	
Nikkei	18,471.48	(+963.7)	
New York close	3,362.17	(+97.52)	
Dow Jones Ind Ave	4,257.22	(+70.52)	
S&P Composite	425.27	(+4.09)	
US CLOSING RATES			
Federal Funds	3 1/4%	(2.50%)	
3-mo Treasury Bill	2.94%	(2.50%)	
Long Bond	8 1/4%	(8.12%)	
Yield	7.26%	(7.26%)	
LONDON MONEY			
3-mo Interbank	10 1/4%	(10 1/4%)	
Little long off future	10 1/4%	(10 1/4%)	
NORTH SEA OIL (Aug 92)			
Brent 15-day (Oct)	\$22.7	(20.42%)	
Oil World			
New York Crude (Sept)	\$24.6	(24.6%)	
London	\$24.25	(24.25%)	

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NEWS: THE ERM AND MAASTRICHT

Bundesbank cites market pressures and future German policy changes as reasons for cuts

Schlesinger puts on a brave face

By Andrew Fisher in Frankfurt

IF Mr Helmut Schlesinger felt any embarrassment yesterday, he hid it well at the press conference called to announce the Bundesbank's about-turn on interest rates.

After months of maintaining a solidly anti-inflation stance, and asserting its determination to bring the wayward money supply under control, the German central bank has cut both its key rates under acute pressure from financial markets and, clearly, politicians.

Since the cuts in the discount rate from 8.75 to 8.25 per cent and the Lombard rate from 9.75 to 9.50 per cent came as the west German economy is weakening and the east German economy recovering more slowly than hoped, Mr Schlesinger, the Bundesbank's president, was able to state that the consequences of the move "should certainly fit into the present situation". The German economy was not in a recession, but showing signs of weakness.

Also giving the rate cuts — the first since 1987 — a domestic gloss was the hope that Chancellor Kohl's call for a solidarity pact, including low wage deals, with industry, unions, and regional states, to sort out the problems of unification and its financing would bear fruit.

Thus Mr Schlesinger said the rate reductions, accompanied by a move to lower money market rates from 9.7 to 9.2 per cent by moving to a fixed rate tender at this week's securities repurchase operation, were also "a certain advance concession" to possible changes in wage and fiscal policies.

But he emphasised in the same breath that it was the predicament the Bundesbank

had been pushed into by external market pressures that caused its move. German inflation was still "markedly high".

Last week's inflows caused by intervention to prop up the lira in the European Monetary System had totalled some DM24bn. Thus the Bundesbank asked the Bonn government to press for a quick realignment. The government could have rejected this. "Then our foreign exchange window would have been open today — and billions [of D-Marks] more would have poured in, and tomorrow, and the day after", Mr Schlesinger said. As it is, funds should now flow out, easing the extra strain on money supply.

The fact that the Bundesbank was forced to lower its rates long before even the most optimistic observers had expected shows the extent of the predicament it was in. Last week, Mr Otmar Issing, a prominent director of the central bank, reassured its commitment to firm money supply targets and said there was no reason yet to "sound the all clear" on policy.

Yesterday, Mr Issing did his best not to look like someone forced to eat his words. "This was outside our calculations". Today, the bank was in a better position than last week. "You can forget M3 and so forth if a situation like last week continues. You have to imagine the dimensions involved".

Not that M3, the broad monetary aggregate, has been forgotten. M3's rapid growth, well outside the 3.5-5.5 per cent target range and inflated by the pressures of unification, has been a main reason for Germany's high interest rates. Yesterday, Mr Schlesinger said M3 growth may have eased slightly from the 8.5 per cent annualised rate of July, but the

target would not be achieved in 1992. It would remain a medium term objective, however.

The scale of the intervention needed had put at risk the Bundesbank's ability to maintain its policies. "The amount was extraordinarily high, higher than ever before in the DM15bn before the last EMS realignment in 1987."

Why was the Lombard not cut by more, Mr Schlesinger was asked? He said the decision to push money market rates down to 9.2 per cent at

really no longer in a position to continue our monetary policy". He compared the inflow with the DM16bn of Bundesbank intervention during the 1973 currency crisis as the Bretton Woods system of fixed exchange rates collapsed and the DM15bn before the last EMS realignment in 1987.

Asked if he had considered resigning, Mr Schlesinger replied: "This question does not arise for me, in view of the circumstances." His deputy, Mr Hans Tietmeyer, said the rate cuts were not made under pres-

sure from EC partners. "The decision is a sovereign decision of the Bundesbank itself."

Mr Tietmeyer said the realignment showed that the EMS rules, allowing for parity adjustments when necessary, still applied. He denied it was a move against Maastricht, where EC leaders last year agreed on progress towards European monetary union. "Until then, the EMS applies — with fixed, but adjustable rates."

On the one hand, there was obvious relief from the business community, and from economists who have been warning of imminent recession in Germany, that for the first time in four years the central bank has cut its leading interest rates, however marginally.

On the other, many bankers expressed the fear that the Bundesbank had seriously damaged its credibility, by being seen to bow to political pressure and relax its monetary targets, at a moment when the German economy did not justify the move.

Mr Edzard Reuter, the chief executive of Daimler-Benz, Germany's largest industrial company, said the cut would provide welcome relief at the current stage of feeble economic growth in Germany.

It was a necessary correction in terms of interest rate policy, he said, which should give the other European economies "significant room for manoeuvre".

He warned, however, that further cuts in interest rates would depend on consolidation of public sector spending, and responsible behaviour by industry and trade unions in future wage negotiations.

Mr Peter Fietzsch of Commerzbank said that the move was "a good message from Germany for Europe", pointing out that this was the first time that the German central bank had taken the financial and economic considerations of another country into account.

But if you want to assess the situation properly, you must realise that we still have very high interest rates in Germany — and we will have them for a long, long time."

In Bonn, the mood was divided. While politicians, from the government and opposition benches, welcomed the move as a boost to the ailing economy — and a help for investment in east Germany — spokesmen for the savings banks, and for German industry, were more doubtful.

Mr Helmut Geiger, chairman of the savings bank federation, said the move was premature in domestic economic terms. The Bundesbank had raised interest rates in July because of the deteriorating budget deficit, and that situation had not changed.

Mr Hans-Peter Stihl, president of the German Chamber of Commerce and Industry, said the move was impossible to understand, because the inflationary tendency in the

Relief and anxiety jostle for supremacy

By Quentin Peel in Bonn and David Walker in Frankfurt

CONTRASTING reactions of shock, relief and anxiety were apparent yesterday from the German business, banking and economics communities to the Bundesbank's modest interest rate reduction.

It was clear that the size of the cut was not in question, so much as its manner and direction.

On the one hand, there was obvious relief from the business community, and from economists who have been warning of imminent recession in Germany, that for the first time in four years the central bank has cut its leading interest rates, however marginally.

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Mr Hans-Peter Stihl, president of the German Chamber of Commerce and Industry, said the move was impossible to understand, because the inflationary tendency in the

German economy was still apparent.

The August figure for the cost of living index rose 3.5 per cent compared with the previous August, against only 3.3 per cent in July.

Mr Stihl said that German industry must watch acutely "to see if the independence of the Bundesbank is properly protected".

A number of economists also claimed that the cut — and the way in which the bank appeared to have been bounced into the decision in the wake of political pressures — had dealt a serious blow to the central bank's anti-inflation credibility and that this would, in time, lead to an erosion of the D-Mark's role as anchor currency of the EMS.

"I was surprised and shocked," said Mr Thomas Mayer at Goldman Sachs in Frankfurt.

"The Bundesbank has changed its course, reducing the importance of monetary targeting. The interest rate cut shows the Bundesbank reacting in a way more befitting a future European Central Bank, reacting to political pressures, to tensions in the ERM and to pressure on the lira."

"It is a relief for the markets because the stranglehold of German policy has been eased. But if we believe the Bundesbank's arguments that inflationary developments in Germany are worrisome — and the rate cut does nothing to change that — the move may undermine the D-Mark's status as anchor of the ERM. The D-Mark was the anchor because the Bundesbank always directed its monetary policy at German fundamentals, but this has now changed."

Mr Lothar Wemmer at Salomon Brothers in Frankfurt said: "The Bundesbank was forced into this, reacting to pure political pressure, with very serious consequences on how the central bank will be perceived and how it will be able to operate in the future. It will contribute to the image of a seriously weakened Bundesbank."

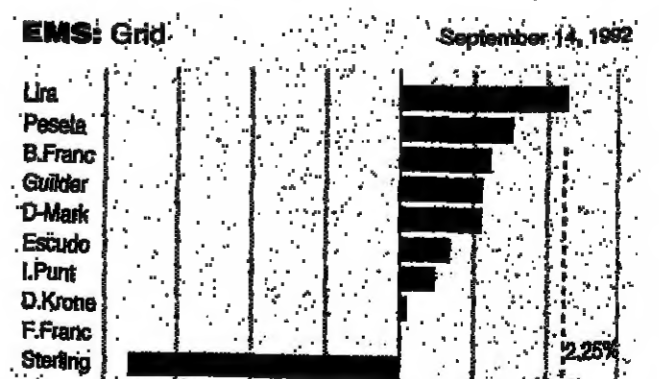
At Hamburgische Landesbank, Mr Konrad Kentmann, chief economist, said: "They could have done it earlier, and then again they needn't have done it now."

"It raises all sorts of questions about the Bundesbank's credibility. Autonomy has always been one of the Bundesbank's most important assets but now doubts about this will intensify."

"In this respect it is not a good omen for European monetary union, lending weight to the arguments of those sceptics who argue that Europe's central bank will have no real authority."

The cut showed that the Bundesbank move to increase interest rates earlier this summer was misguided, Mr Kentmann said.

Grid shows tensions



THE European Monetary System grid is a good indicator of where tensions lie in the exchange rate mechanism and has changed markedly since Friday night.

Following its devaluation over the weekend, the Italian lira is at the top of the grid because it is the strongest EMS currency when measured by its central rate against the Ecu.

The D-Mark is back at the centre of the grid, having been at the top for most of the last fortnight.

As the hard currency of Europe, it should be at the centre when the system is operating properly, allowing the exchange rates and monetary policies of other countries to be altered around it.

Sterling, at the bottom of the grid, seems increasingly under pressure. It is 81 percentage points below its central Ecu rate.

A rule of thumb among EMS nations is that when a currency diverges more than 75 points from its central Ecu rate, its central bank should take measures to redress the balance.

Germany offered to cut rates a week earlier

By Quentin Peel in Bonn

GERMANY offered to cut its interest rates in return for a realignment of European currencies more than a week before the deal was finally done, according to senior officials in Bonn and Frankfurt.

However, agreement was delayed by the refusal of other members of the European exchange rate mechanism to go ahead with the realignment, they said yesterday. Both Britain and France wanted the Bundesbank to cut its interest rates unilaterally.

"It was the Germans who initiated the whole process," according to one

well-placed official. "We tried even before Bath [where the European Community Finance Ministers had their informal meeting on September 6], indicating that we were ready to do something on the interest rate front, providing our partners would come to grips with their domestic economic decisions."

"But in Bath the time still was not ripe."

According to the officials, the Bundesbank was not prepared to act on interest rates unless there was prior agreement on a realignment. "An interest rate cut in isolation would have indicated that the Bundesbank

was giving in, and have no effect on the markets," according to the official, who declined to be identified.

"Talks had been going on for some time, and at several levels," according to another senior official. "In the end, the market forced the pace."

The delay in reaching agreement may well have been because the Bundesbank wanted a much broader realignment of currencies than simply one affecting the lira, other sources said. They believe that such a realignment would have involved a devaluation of sterling — but the British government refused to give way.

Officials in the Bundesbank did

believe that a sterling devaluation was required by the market, although other officials said they recognised the strength of British arguments against any adjustment.

In the end, the flood of speculative money from Italy into Germany last week forced the Bundesbank to act without such a realignment.

On the German side, the deal was put together by a triangle of key officials: Mr Hans Tietmeyer, the deputy president of the Bundesbank; Mr Horst Köhler, the state secretary for finance; and Mr Johannes Ludwig, economic adviser to Chancellor Helmut Kohl.

A key factor in the process was heavy political pressure from the French government to cut interest rates in advance of next Sunday's referendum on Maastricht, thus persuading French voters that Germany was prepared to act in the "European" interest.

German officials expressed surprise that the currency markets believed a realignment would come only after the French referendum. "There was no way we would wait until September 21," according to one. "If the French got any more pessimistic in the opinion polls, it would have caused havoc in the market."

Only dealers won in lira support System is still under pressure despite action

By James Blitz, Economics Staff

INSTRUMENTAL in the Bundesbank and Bank of Italy's decision that the lira should be devalued was the failure of last week's huge intervention to support the currency.

The attempt to prop up the Italian currency appeared to result only in bringing huge profits to interbank speculators.

Operators were reported on Friday to be buying the Italian currency when it dropped below the official floor in the European Exchange Rate Mechanism and then selling the lira back to the Bundesbank at a guaranteed profit

when the lira rose back to the floor of L765.4 against the D-Mark.

One interbank dealer said yesterday that the Bundesbank's intervention provided the market with "a one-off opportunity" to make big profits. "A lot of Italian corporates, fund managers and pension funds were in on the act," he said.

One European official suggested that the Italian government is the principal loser in the operation because it will probably have to buy back the lire from the Bundesbank at the old rate.

The Bundesbank spent more than DM24bn (£8.6bn) last week buying the lira to keep it above its floor against

the D-Mark.

"The intervention was on an extraordinary scale," said Mr Paul Chertkow, global currency strategist at UBS Phillips and Drew in London. "It must rank as the largest intervention in a concentrated period of time by a central bank for two decades. When you consider that the Italian lira is a marginal currency, the scale of last week's operation seems all the greater."

On Friday, the lira barely moved off its floor of L765.40 against the D-Mark, and was below it at several points in European trading.

However, the purchase of lire pushed billions of D-Marks into the money system, upsetting the German central bank's

strict money supply targets.

Analysts said the 7 per cent devaluation of the lira may seem small when the scale of the Bundesbank's intervention is taken into account.

The lira was overvalued against the D-Mark by about 20 per cent on a trade-weighted basis before the weekend realignment.

The size of the intervention may also worry the Bank of England, which took out a \$1.7bn loan from international banks two weeks ago to support sterling.

"If the Bundesbank's intervention last week failed to support the lira, why should anyone believe that the pound will be supported by a loan of that size," said Mr Chertkow.

Speculation about other currencies that could be affected by future devaluations centred yesterday on sterling, the Spanish peseta and the Portuguese escudo, all of which have traded weakly in recent weeks.

Much depends on next Sunday's referendum in France on the Maastricht treaty. If it delivers a No vote, holding up moves to economic and monetary union, investors may step up selling of the weaker ERM currencies, causing new strains in the mechanism.

There are two ways of assessing how the ERM realignment will affect the outlook for the mechanism. The more sanguine view stresses the special nature of the lira's problems, stemming from a weakening of international confidence in the Rome government.

According to this view, the 7 per cent devaluation of the Italian currency has demonstrated the capability of Europe's leaders to adjust the ERM to take into account unique circumstances of member countries.

The fact that European politicians collectively persuaded the Bundesbank to cut borrowing rates is also seen as a hopeful sign. The move led yesterday to a weakening in the D-Mark against the dollar, and so eased pressures in the ERM on the weaker currencies.

Even though the easing in German monetary policy was slight, the important factor, according to this school of thought, is that it almost certainly marks the start of further reductions in Bundesbank rates over the coming months, as the German economy starts to slow.

Mr David Cooker, chief currency economist at Chemical Bank in London, said: "The ERM will stay intact, whatever the result of the Maastricht vote. There will be no further realignment after next week."

The second way of analysing the realignment inclines to the view that the ERM has deep-seated problems which cannot be solved by one quick fix.

Mr David Owen, UK economist at Kleinwort Benson, the London merchant bank, said: "The lira devaluation has raised questions about whether the ERM can be sustained in its present form."

Sterling, so this argument runs, is a candidate for a devaluation on the grounds that, without one, the UK will be unable to institute the large cuts in domestic borrowing rates that are needed to revive its battered economy. That would be especially the case if — as seems likely — the Bundesbank takes its time over further cuts in interest rates.

Meanwhile, the position in the system of the peseta and the escudo can be maintained only with the help of high Spanish and Portuguese credit ratings which cannot be sustained in the long run.

As for the lira, some believe the devaluation may not have been sufficient to stop further weakening.

Perhaps the strongest argument for further realignments is a psychological one. Last month, the European Community's finance ministers ruled out a devaluation of any of the 10 currencies in the grid, on the grounds that a change in rates would not be "the appropriate response".

With this promise having lasted just two weeks in the case of the lira, the financial markets cannot be blamed for wondering whether the commitment to keep other weak ERM currencies at their central rates may turn out to be less than total.

ERM PARITY GRID											
Bilateral central rates and selling and buying rates from September 14, 1992											
	B Fr/	L Fr 100 =	D Kr 100 =	FFr 100 =	DM 100 =	£ 1 =	L 1,000 =	FI 100 =	PEsc 100 =	Plz 100 =	£ 1 =
Belgium-Lux.	S	-	553.000	628.970	2109.50	56.5115	26.2967	1872.15	25.1900	33.6930	64.9050
	C	-	540.723	614.977	2062.55	55.2545	25.7018	1830.54	23.7241	31.7318	60.8445
B.Fr/Lux.Fr	B	-	528.700	601.295	2061.55	54.0250	25.1300	1789.85	22.3435	29.8850	57.3035
Denmark	S	18.9143	-	116.320	390.160	10.4511	4.86140	346.240	4.65960	6.23100	11.9479
	C	18.4938	-	113.732	381.443	10.2186	4.79325	339.537	4.39747	5.96537	11.2927
D.Kr	B	18.0831	-	111.200	373.000	9.9913	4.64750	331.020	4.13210	5.52600	10.5977
France	S	16.6310	89.9250	-	343.050	9.18900	4.27440	304.440	4.09610	5.47850	10.5055
	C	16.2808	87.9257	-	335.386	8.98480	4.17332	297.561	3.85772	5.15981	9.8938
F.Fr	B	15.8990	85.9700	-	327.920	8.75000	4.09630	291.040	3.63320	4.85950	9.3180
Germany	S	4.95900	26.8100	30.4850	-	2.74000	1.27450	99.7700	1.22100	1.63300	3.13200
	C	4.84837	26.2182	29.8184	-	2.67894	1.24612	98.7526	1.15023	1.59947	2.99000
DM	B	4.74000	25.6300	29.1500	-	2.61900	1.21850	96.7900	1.08300	1.44900	2.77800
Ireland	S	1.85100	10.0070	11.3830	38.1825	-	0.475738	33.8868	0.455885	0.808772	1.18921
	C	1.80881	9.78604	11.1299	37.3281	-	0.465154	33.1293	0.423980	0.774281	1.10122
£	B	1.76850	9.56830	10.8825	36.4964	-	0.454806	32.3938	0.404371	0.540858	1.03711
Italy	S	3879.30	21517.0	24472.0	82068.0	2198.73	-	72844.0	980.100	1310.50	2513.64
	C	3880.77	21038.3	23927.3	80248.3	2149.62	-	72322.2	923.048	1234.50	2387.34
L	B	3804.20	20570.0	23395.0	78462.0	2101.93	-	69636.0	889.300	1162.70	2226.55
Netherlands	S	5.58700	30.2100	34.3600	115.2350	3.08700	1.43600	-	1.37600	1.84050	3.52950
	C	5.46286	29.5389	33.5953	112.6730	3.01848	1.40405	-	1.29901	1.73345	3.32388
Fl	B	5.34150	28.9825	32.8475	110.1675	2.95100	1.37280	-	1.22100	1.63250	3.13050
Portugal	S	447.590	2420.10	2752.40	9233.60	247.299	115.030	8190.00	-	142.020	272.320
	C	421.513	2279.22	2592.21	8833.93	232.905	108.337	7715.97	-	133.753	258.470
Esc	B	396.980	2146.60	2441.30	8190.00	219.350	102.030	7267.00	-	125.570	241.545
Spain	S	334.819	1809.40	2057.80	8901.70	184.832	86.0000	6125.30	79.3850	-	203.600
	C	315.143	1704.05	1938.06	8590.00	174.131	80.9979	5758.23	74.7649	-	191.750
Plz	B	296.802	1604.90	1825.30	6121.70	163.797	76.8800	5433.10	70.4130	-	180.590
UK	S	1.74510	9.43610	10.7320	35.9970	0.964240	0.448520	31.9450	0.414000	0.553740	-
	C	1.64352	8.88897	10.1073	33.9894	0.908116	0.422415	30.0853	0.388996	0.525154	-
Pta	B	1.54790	8.36970	9.5190	31.9280	0.855260	0.397830	28.3340	0.367220	0.451190	-

UK stifles disappointment at German cut

By David Owen

THE British government hinted yesterday that a cut in interest rates had moved closer, as it put on a brave face in response to what is seen as a disappointingly small reduction in German rates.

With several European countries following the Bundesbank's lead and lowering their rates, Downing Street said the cut had "probably brought forward the time when British interest rates will move". While admitting the German move might be "a one-off", officials sought to portray it as the

start of a trend towards lower interest rates throughout Europe and said there had been "a significant change of mood".

But they reiterated Prime Minister John Major's uncompromising message last week that he would not allow sterling's value in the European Exchange Rate Mechanism to be undermined. British interest rates would be set with a view to "maintaining our position in the ERM", they said. The probability of a realignment of the pound's ERM parity was "zero".

Privately, officials suggested

that the British government had succeeded in undermining the consensus view held in the markets a few weeks ago that the next move in British interest rates would be up.

The 0.25 percentage point cut in Germany's trend-setting Lombard rate was criticised as too small by British MPs.

Mr John Carlisle, a Tory Euro-sceptic, described it as "derisory". "It shows that we should be free of the ERM and able to set our own levels and float the pound in the currency markets," he said. Mr John Townsend, outgoing chairman of the influential Tory back-

bench finance committee, said the size of the reduction was "very disappointing". He said he was "more than ever convinced" that the move had been motivated by the need to get a Yes vote in the French referendum.

For the Labour party, Mr Alistair Darling, a shadow Treasury spokesman, said the cut was "a lot less than people hoped". He urged Britain and other European countries to "reduce interest rates to try and stimulate the economy and to bring back confidence".

Mr Bryan Gould, the shadow heritage secretary who is also

an outspoken critic of official Labour policy over Maastricht and the pound, said the reduction was "so small it can only be regarded as a gesture". A wider realignment of ERM currencies involving sterling was still "desirable".

This view was refuted by Mr John Smith, the Labour leader, who said he did not regard devaluation as the best way of bringing British interest rates down.

In Harrogate, Mr Paddy Ashdown, Liberal Democrat leader, also described the move as "disappointing". He urged the government to "grit its teeth"

and to permit a reduction in UK rates only when sustainable in the longer term.

Mr Michael Heseltine, trade and industry secretary, called the cut as "small but welcome". "We have always argued that there was a great strength in the co-ordination of the Exchange Rate Mechanism," he said.

Downing Street sought to counter this disappointment by pointing out that yesterday's move represented the first cut in German interest rates for five years and arguing that any reduction, however small, was "significant". It said the move

showed "the benefits of international co-operation" and argued that hopes of anything other than a "modest" cut were unrealistic. The weekend's developments had also been "useful" in dispelling the notion that sterling would have to be devalued at the same time as the lira.

Mr Norman Lamont, the chancellor of the exchequer, had been involved in discussions to formulate a strategy for addressing the crisis in the European Monetary System but the exact size of the interest rate cut had been determined within the Bundesbank.

Italian pay deal called in question

By Robert Graham in Rome

THE fate of the historic agreement between the Italian government, employers and the trade unions abolishing the system of indexed wages on July 31 has been called in question by devaluation of the lira.

All sides yesterday pledged their willingness to respect the agreement. However, the employers and unions now expect the government of Mr Giuliano Amato to provide quick evidence of its ability to hold down prices and carry out credible reforms.

Confindustria, the employers' confederation, is concerned that the government might make concessions to labour in order to retain the unions' support at a time when the economy is stagnant and unemployment rising.

The unions fear inflation will rise, undermining the basis of the outline agreement achieved in July. In addition, the trade union leadership is worried that rising unemployment in the autumn, coupled with inflation fears, will radicalise members whose disaffection may not be easy to control.

The July agreement abolished the *scala mobile* which for 47 years indexed wages to inflation.

The old system will be replaced by a limited form of compensation in wage packages for 18 months as of January 1993. This will consist of an extra 1.20,000 (€3.40) a month - well below the 3.5 per cent rate of inflation projected in July for next year.

Wages in July were rising at 4.3 per cent against annualised inflation then at 5.5 per cent. Thus the absence of the *scala mobile*, combined with a 4.5 per cent cap on public sector wages, has proved effective until now.

The main inflationary element has been the continued high cost of cartelised and uncompetitive services.

Confindustria estimated yesterday that devaluation would

ITALY'S financial markets yesterday reacted with relief, but hardly euphoria, to Sunday's devaluation of the lira, amid a mixed reception from business and union leaders. writes Haig Simonian in Milan.

Mr Bruno Trentin, general secretary of the CGIL union federation, said the devaluation "is a defeat, and one should have the courage to admit it".

After a sharp rise at the opening, share prices in Milan moderated their climb later in the day, with the Comit equity index closing up 3.25 per cent at 578.04.

add an extra half-point to inflation during the rest of the year - if the government kept its promise to freeze utility prices and clamp down on those who sought to take advantage of devaluation. Inflation in August was running at 5.3 per cent and before the devaluation was due to be below 5 per cent at year-end.

Both the unions and Confindustria have been supportive of the government's efforts because they are the two groups most aware of the parlous state of the economy and the need for concrete measures to prevent the financial crisis deteriorating. The government can still build on this support but only by satisfying both sides, which may prove much harder.

The business community was dismayed last Wednesday by the way Mr Nino Cristofori, the Christian Democrat labour minister, refused to accept in cabinet proposals for immediate cuts in the costly state pension scheme for fear of offending his own constituency.

In retrospect, this cabinet meeting, which produced Mr Amato's surprise call for special emergency powers to handle the economy but failed to give a coherent signal of decisive action, was instrumental in accelerating devaluation. It was the first time in two months of office that the prime minister appeared unsure of his touch.

Mr Amato has a small breathing space provided by devaluation to claw back the initiative. But the political establishment is now slowly reasserting itself after virtually two months' tolerance of his astute exploitation of what at the outset appeared limited authority, constrained by a weak four-party coalition.

His greatest weakness now is the position of Mr Bettino Craxi, the leader of Mr Amato's Socialist party and his backer. The party risks being split by the growing discredit of Mr Craxi as a result of the Milan corruption scandal and the aspirations of Mr Claudio Martelli, the justice minister and one-time party heir apparent.

US hopes tension in G7 will ease

By George Graham in Washington

US OFFICIALS yesterday welcomed the German interest rate cut and the devaluation of the lira, which immediately took pressure off the dollar in foreign exchange markets, hailing the twin actions as "a pretty good example of successful policy co-ordination".

"They set a new direction, they sent an extremely important message to the markets, which the markets have clearly received," a senior US Treasury official said.

The reduction in German rates is expected to ease the atmosphere of next Saturday's meeting of the Group of Seven (G7) leading industrial nations in Washington.

"A lot of the tension not only in the EMS but also within the G7 over a matter of great importance to the world economy has effectively been defused," the official said.

The US has for some time complained that German interest rates were too high and imperilled the prospects for world growth, but officials argued, nevertheless, that the Bundesbank was reacting more to signals from the slowing German economy than to international pressure.

"The dollar's recovery yesterday follows a period in which it slipped to historic lows against the Deutschmark, and Treasury officials have had to counter the effect of remarks from President George Bush suggesting that he welcomed the US currency's weakness as a stimulus to exports."

"The movement of the dollar in this case was a residual effect of the tensions in Europe and not a judgment of any kind on the fundamentals of the US economy. We are not seeking a depreciation of the dollar," the official said.

Germany's lead soon followed

By Emma Tucker, Economics Staff

THE BUNDESBANK'S decision to cut its leading rates yesterday was swiftly followed by rate cuts in some other European countries.

Reductions were mainly confined to countries whose currencies form the hard core of the European exchange rate mechanism, while others, wary that the German move was too small to allow much room for manoeuvre, chose to wait at least until after the French referendum.

The Bank of Belgium said it would cut its discount rate to 8.25 per cent from 8.5 per cent. Its emergency lending rate - equivalent to Germany's Lombard rate - was cut from 11.5 to 11 per cent. In the Netherlands, the central bank lowered its three key interest rates by 0.25 percentage points.

In Austria, whose schilling is informally linked to the D-Mark although not part of the ERM, the central bank cut its lending rates to the same level as in Germany. The Swiss, whose currency is also informally associated with the D-Mark, cut the discount rate to 6.5 per cent.

Denmark, which usually follows German rates closely, had not decided yesterday how to react.

In Norway, analysts reckoned the central bank was unlikely to cut interest rates soon, partly because the German move was too small to influence Norway.

Japanese officials dismissed suggestions that Tokyo should cut interest rates but welcomed the realignment of European currencies. Mr Tsutomu Hata, finance minister, said Japanese interest rates were already low.

French moves will depend on referendum

By William Dawkins in Paris

THE French government yesterday warned that France was unlikely to follow the German drop in interest rates unless the electorate backed monetary and political union in next Sunday's referendum.

"Only a Yes to Europe, a Yes to Maastricht, can open firm prospects of a fall in interest rates for France," said Mr Michel Sapin, finance minister.

A French decision on rates would be taken on the Monday or Wednesday following the referendum, he said.

Mr Pierre Bérégovoy, the prime minister, denied that the government was blackmailing voters by linking a possible rate cut to their decision on Maastricht. It would simply be more responsible to decide in the light of the referendum result, given the fact that the close race between pro- and anti-Maastricht factions, shown in the final public opinion surveys before polls closed at the weekend, clearly weighed on currency and equity markets.

If the Noes win, there would be "a monetary shock and a stock market shock," he said. "It has to be said, that from then on, everyone must take their responsibilities."

The government would stay on, whatever the result, Mr Bérégovoy confirmed. He cautioned the political fall-out of a vote against the treaty would be worse for the deeply divided opposition than for the Social-

ists. President François Mitterrand was planning to stay in power until his mandate ran out in early 1995, he added.

Both Mr Bérégovoy and Mr Sapin denied that the Bundesbank cracked under international pressure. "I don't see it like that at all, and I don't say that for diplomatic reasons," said Mr Sapin. "The Bundesbank does not surrender to pressure. It has enlarged its reflection to include more general considerations."

The French stock market, like others across Europe, was yesterday cheered by the German rate cut and the European Monetary System realignment, even though analysts said the fall in borrowing costs was so small as to be merely symbolic.

By mid afternoon, the CAC 40 index had risen nearly 3.8 per cent, with companies sensitive to interest rate changes, such as banks and leasing houses, showing the strongest gains.

Another optimistic sign came from the latest inflation results, showing a 0.1 per cent rise in consumer prices last month, down from 0.3 per cent in July. This brings the price rise over the previous 12 months to 2.7 per cent, putting France on track to hit the 2.8 per cent annual inflation target for 1993 on which the state budget is based, said the Finance Ministry.

The latest result widens the gap between French and German inflation rates, with the latter 0.8 percentage points higher over the year to August.

Delors pleads for future of EC

By David Gardner in Brussels

MR Jacques Delors, the French president of the European Commission, pleaded with his countrymen yesterday to prevent the European Community from breaking up, pointing to yesterday's German interest rate cut as evidence that the Twelve defend common interests.

He described the cut as "a reassuring example, which shows that the Community is a body where unwritten rules are applied by everyone", adding: "Please let's not break that up."

Implying that Germany took its time in making this gesture, only a week before the Maastricht treaty stands or falls in France's referendum, he evoked "a Community spirit which, ultimately, member states have a bad conscience if they defend their own interests against common interests".

Replying to questions on Italy's devaluation, he recalled "the victory of civic spirit over what I would call obscure forces" in France, when as French finance minister in 1983

he had devalued the franc. "I hope I will be able to take off my hat [to French civic spirit] next Monday for a different reason," he added.

Speaking after negotiations with Ukrainian President Leonid Kravchuk on a trade and co-operation agreement with the former Soviet republic, Mr Delors warned that the EC's ability to take in new members would be badly damaged if the French voted No to Maastricht.

Admitting that people blamed the EC for the recession, and feared the deflationary criteria Maastricht sets for economic and monetary union (Emu), Mr Delors defended his controversial plans to raise Community spending by a third as an antidote.

These would enable fiscal transfers to the poorer member states, and sharply raise spending on research and retraining, but are in effect being blocked by the EC's main paymasters, Germany, the UK and France.

The package "enables us to meet the objectives of Emu without its deflationary effects", Mr Delors claimed.

Italy and Spain out-perform market

Europe bond prices surge

By Tracy Corrigan and Antonio Sharpe

THE German rate cut yesterday was seen as a turning point for European bond prices which surged on hopes that European interest rates had peaked.

The Bundesbank move, which followed Sunday's 7 per cent devaluation of the lira, appeared to have mitigated fears of a No vote in French referendum on the Maastricht treaty.

Italian and Spanish bonds out-performed the rest of Europe, ending 2 percentage points higher. Prices of UK gilts and Ecu bonds gained 1½ points, while 10-year French and German government bonds lost some earlier gains

to end a point higher.

"The market believes that the down cycle in German interest rates has started," said Mr George Magnus, a director of fixed-interest research at S.G. Warburg Securities.

Although a No vote in the French referendum would test the markets severely, the apparent peaking of European interest rates, three months ahead of most analysts' expectations, should help to underpin Europe's bond markets.

"The main problem has been to plough ahead [with European monetary union] in a climate of slow growth in Europe, with high German interest rates," said Mr Jeremy Yeats-Edwards, a senior portfolio manager of Baring's international bond fund. With some of



Paris billboards publicising next Sunday's referendum on Maastricht: a French decision on interest rates will follow

Victory claimed for Maastricht

THE bowing of the Bundesbank to international pressure to cut German interest rates could slice both ways in poll, writes David Buchan

partners' monetary desires.

"Maastricht will be a step forward in monetary co-operation", said Mr François Hollande, a leading socialist member of the National Assembly's finance committee, "especially because there will be no need as today - to ask the Germans to lower their rates so that others' rates can follow."

Yet collective action on rates would only come once a single currency and bank existed. Maastricht provides for an interim European Monetary Institute, representing all 12 EC states, but still leaving

monetary policy in individual central banks' hands.

But the Frankfurt rate reduction provided welcome ammunition for the Yes campaign to counter the argument that the treaty would insulate the planned European Central Bank from all political control.

This was where Mr Philippe Seguin, champion of the No campaign, pushed President François Mitterrand onto very weak ground in their TV encounter 10 days ago.

Mrs Simone Veil, the centrist UDF deputy, argued that yesterday's financial moves showed "that it is the politicians who are able to bring pressure to bear on interest rates", contrary to the anti-Maastricht arguments that "it is the monetary authorities who will dictate to the politicians once there exists a [European] central bank".

Sweden cuts marginal rate to 20%

By Robert Taylor in Stockholm

SWEDEN'S central bank cut its marginal lending rate to the banks to 20 per cent from 75 per cent yesterday and the country's centre-right government announced SKR20bn (€1.9bn) of spending cuts to nearly halve the structural budget deficit and calm the foreign exchange markets.

The central bank's action was taken in response partly to the small drop in German interest rates but also to the strong inflow of capital into Sweden over the past few days. The lending rate was increased

last Wednesday to 75 per cent in reaction to the floating of the Finnish markka.

"We have re-established credibility in the krona and eliminated doubt about our ability to maintain a fixed exchange rate," said Mr Thomas Franzen, the bank's deputy governor.

The Stockholm bourse bounced back yesterday with a 5.6 per cent increase in its general index to 757.6, the largest rise in one day since January last year. Manufacturing sector shares rose 6.7 per cent and banks and insurance companies 7.1 per cent. There were falls in a wide range of short

term market rates as well.

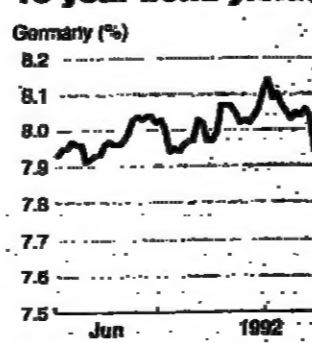
Mr Carl Bildt, prime minister, said his centre-right coalition intended to take a firm grip on its expenditure programmes. The proposed reduction in government spending promises to be the most drastic ever carried out by a modern Swedish government.

The full details will be announced on October 6 when parliament returns from recess and Mr Bildt makes his state of the nation address.

Mr Bildt and his finance minister, Mrs Anne Wibble, said the government wanted to eliminate Sweden's structural deficit, which makes up an estimated SKR50bn of the SKR160bn-SKR180bn budget deficit expected this year. The rest is cyclical, caused by the country's current recession.

The prime minister said the government was open for unconditional talks on the contents of the cuts package with the opposition Social Democrats. But that party's finance spokesman, Mr Allan Larsson, rejected any discussions with the government unless it abandoned plans for unfunded tax reductions.

10-year bond yields

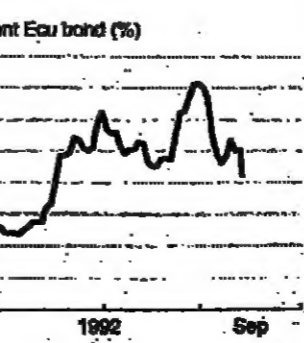


Source: Datastream

some caution. Following the latest gains, a Yes vote is substantially priced into the market, reducing the chances of a massive rally next week if the French ratify the Maastricht treaty.

Furthermore, investors might decide that the potential gains in higher-yielding markets do not outweigh the greater degree of risk, such as

French government Ecu bond (%)



a further devaluation of the lira.

Despite a 1½ point recovery yesterday, there are no signs of any return to favour for the Ecu bond market, where liquidity has dried up since the Danish referendum on June 2. "If there is a No vote, the Ecu may never be a single European currency," one trader said.

"There will have to be a substantial Yes vote to attract investors back." However, a number of trading houses have been investing heavily in high-yielding bonds. Yesterday's rally encouraged expectations of a Yes vote, and, with some heavy losses to recoup since the Danish referendum, some traders are taking a "double or quits" view of the referendum.

NEWS: EUROPE

Russia warned of crisis over hyper-inflation

By John Lloyd in Moscow

A SENIOR Russian government official yesterday predicted a hyper-inflationary crisis by the end of the year because of the credit policies of the country's central bank.

Mr Sergei Vassiliev, the head of the government's Centre for Economic Reform, said that "in practice, the leaders of the central bank are acting to discredit not only the government but the entire course of reform".

He admitted that, if there were no change in the Bank's credit policy, it would be impossible to meet the targets agreed between the government and the international

Monetary Fund for this year - that is, of a budget deficit of no more than 5 per cent of GNP and inflation at no more than 10 per cent a month.

Instead, he said that inflation was now running at a weekly basis of 4.4 per cent, or more than 20 per cent a month, and was expected to accelerate next month.

The budget deficit now stood around 7 per cent of GNP, he added.

Mr Vassiliev's sombre picture was in sharp contrast to the optimism expressed by Mr Richard Erb, the IMF assistant managing director, on a visit to Moscow last week.

Mr Vassiliev's charge is the most serious of a rising chorus of ministerial complaints about the actions of Mr Victor Gerashchenko, the former Soviet State Bank chairman, who was appointed acting chairman of the Russian bank in July.

It also foreshadows a clash between the government and Mr Boris Yeltsin, the Russian president, on one side and the bank and the Russian parliament, on the other. The Russian parliament begins its new session in a week's time.

Mr Vassiliev, introducing the first in a quarterly series of "Russian Economic Trends", refused to be drawn into what actions would be taken to avoid hyper-inflation - but said that the government would not "give up". Parliament will not easily give up control over the bank - while both Mr Yeltsin and government ministers have called in recent days for bringing it under government control, or making it completely independent.

His comments are a further signal of a gathering political, as well as economic, showdown between the shifting forces within Russia.

Mr Yeltsin, accused of populism in the past, has so far remained strongly in support of the reform cabinet under Mr Yegor Gaidar - whose job as prime minister is, like Mr Gerashchenko's, only an "acting" title.

Mr Vassiliev said that the president had "no choice but to support the reform - otherwise he would have to rely on conservative forces. He cannot change his political base".

According to Mr Vassiliev, who was supported by Mr Mark Dembrowski, a government adviser who had previously advised the Polish government, credits to enterprises in July had increased to Rb550bn, with a similar advance expected next month.

The Russian Information department reported last night that the central bank's Moscow department proposed issuing further credits of between Rb500bn-Rb1,000bn to regulate the debts owed by enterprises in the Moscow region.

Germany seeks EFA spending freeze

By Quentin Peel in Bonn and David White in London

GERMANY has persuaded Italy and Spain to support a halt to development spending on the European Fighter Aircraft, according to government officials in Bonn.

An official, who acknowledged that approval was still needed from Britain to stop the project, said: "We are aiming at a switch in the remaining development funds, which are committed but not yet

spent, from the present EFA to a new, cheaper and lighter aircraft."

He was speaking after talks between Mr Volker Rühe, the German defence minister, and Mr Julián García Vargas, the Spanish counterpart, at which, he said, Spain had agreed to back the German line.

The German official said that Italy had also agreed to support the German stance, after talks in Italy last week between Mr Rühe and his Italian opposite number. The position of the

British government, which is still strongly committed to the EFA, looks increasingly isolated, with Spain and Italy, under budgetary pressures, siding with Germany.

No action can be taken unless Britain, the fourth partner in the project, agrees, because all are contractually committed to the entire \$15.76bn development phase of the fighter aircraft. It is estimated that some \$10bn of the total has been spent so far. According to the Munich-based

Eurofighter consortium, 270 of the 280 main equipment contracts for EFA development have been awarded, and contractors for most of the remainder have already been chosen.

Bonn decided in June not to go ahead with production of the current EFA aircraft, arguing that it was too expensive and designed for an outdated cold war threat.

Mr Rühe is extremely anxious to save some of the estimated DM3bn (\$2.1bn) devel-

opment cash that Germany is contractually committed to spending on the EFA.

Defence chiefs from the four countries are currently reviewing the operational requirements on which the EFA project was originally based and are due to complete their reports next month.

The four governments have agreed to investigate the possibility of using the development work done for EFA to design a cheaper fighter aircraft.

French PM urges end to jails strike

By Alice Rawsthorn in Paris

MR Pierre Bérégovoy, the French prime minister, yesterday tried to quell unrest in the country's jails by urging striking prison officers to return to work and promising that the government would take action to improve prison security.

The French prison system yesterday came close to chaos as 137 of the country's 182 penal institutions were affected by the industrial dispute which broke out on Friday following the murder of a prison officer at the Clairvaux high security jail as seven inmates tried to shoot their way out. The government has suspended 39 striking officers in an attempt to end the stoppage.

The Justice Ministry also sent in more than 3,000 police to fill in for warders at 40 establishments, fearing a rash of prisoner unrest if jails were not properly secured.

A series of spectacular jailbreaks, mutinies and attacks on warders in the last two months have highlighted a crisis in France's overcrowded jails. The prison population has doubled to 54,000 in the last two years.

The killing of the warder at Clairvaux followed the murder of an officer at Romainville earlier this month during an attack by a prisoner.

The Rouen killing prompted a wave of industrial action by prison officers, which was only called off when the government promised to take action. The current strike started on Saturday and by yesterday had spread to 137 prisons, with riot police moving into a number of jails to restore order.

Mr Bérégovoy, who is anxious to create a picture of political stability before next Sunday's crucial referendum on the Maastricht treaty, appealed to prison officers to end their strike. "The government will act responsibly," he said on French radio. "It has understood your message. Now you must go back to work."

The government has already begun an investigation into the illegal traffic of arms in French jails following the Clairvaux shoot-out. The ruling Socialist party yesterday suggested that next year's national budget should make extra provision for the prison system.

Rise in Spain's inflation rate

Consumer prices in Spain rose 0.5 per cent in August, slightly less than expected, Reuters reports from Madrid. Underlying inflation, excluding unprocessed food and energy, rose 0.4 per cent, from 0.3 per cent in July, to give a year-on-year rate of 7.0 per cent from 6.7 per cent in July.

Higher VAT rates seemed to have less impact than forecast.

Party setback in poll run-up Mitterrand ally charged over Socialists' funds

By William Dawkins in Paris

MR Henri Emmanuelli, president of the French national assembly, was yesterday charged with complicity in illicit trafficking of influence.

The move was expected, but is likely to embarrass the Socialist party in the run-up to next Sunday's finely balanced referendum on European union.

It is the latest twist in a long-running judicial campaign against political corruption, which has focused on the ruling Socialist party and contributed to the decline in its popularity.

Ironically, this comes just a week after the government tabled its own proposals to curb corruption, including a ban on business donations to party funds.

Mr Emmanuelli, former Socialist party treasurer, denied the charges, which he described as "artificial" and claimed yesterday that they were politically motivated.

President François Mitterrand has repeatedly defended Mr Emmanuelli's honesty.

The charges, issued by Mr Renaud van Ruymbeke, an examining judge in Rennes, accuse Mr Emmanuelli of responsibility for receiving

cash from construction companies in Le Mans, in exchange for promises of public contracts.

Mr Emmanuelli is charged in his capacity as party treasurer, a post he held from the presidential election in 1988 until 1992, rather than personally.

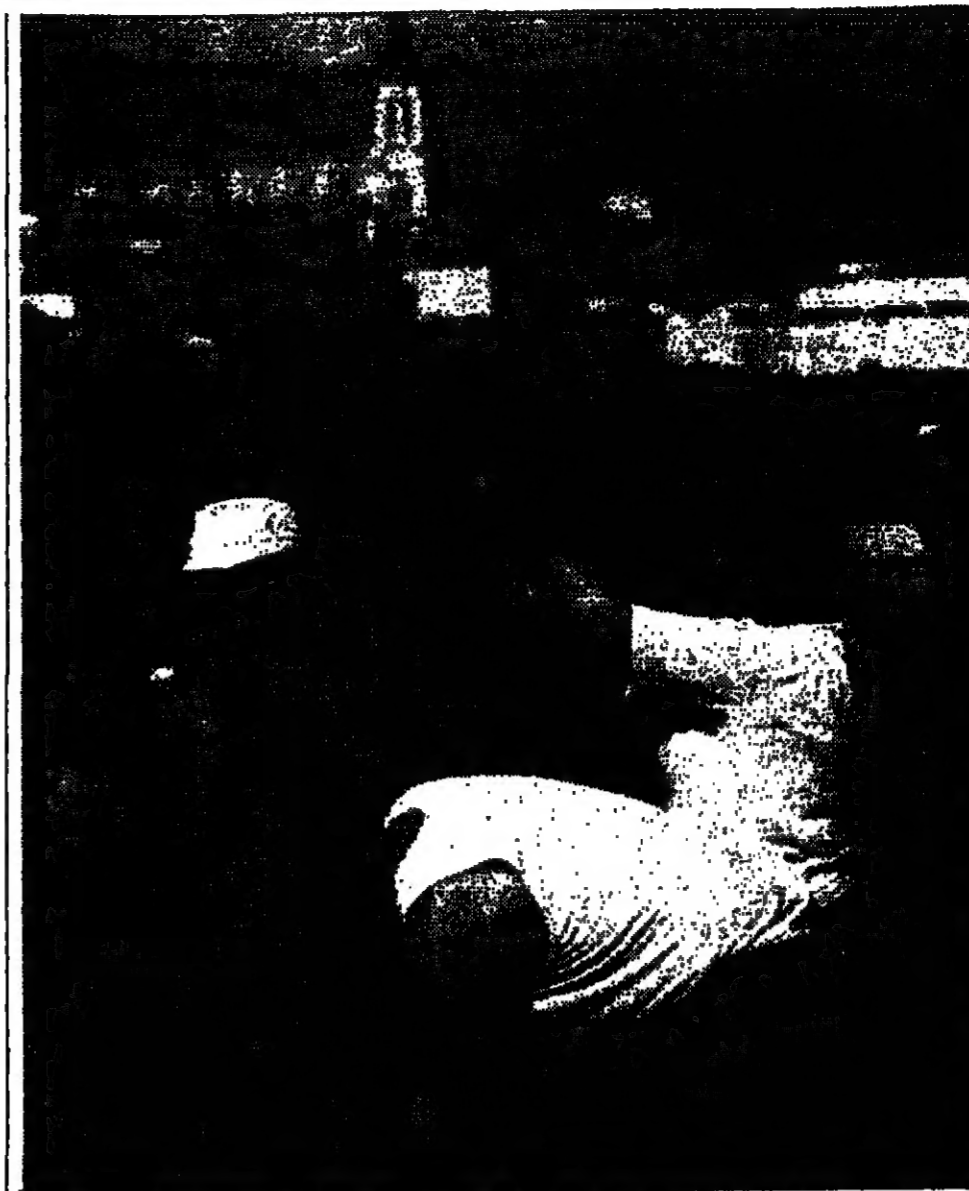
He is the latest of dozens of politicians from most political parties to be accused of illegal fund-raising.

Mr Emmanuelli has refused to resign, in contrast to Mr Bernard Tapie, the former junior minister for urban affairs, who was obliged to step down last summer after a business associate launched a fraud action against him.

Adding to the government's embarrassment, a businessman, also charged in connection with Socialist party financing, said in an interview that he had paid campaign bills for President Mitterrand and other Socialist leaders.

Mr Michel Rey, released on bail last week, described in the newspaper *Le Parisien* how his company illegally transferred money from big companies to the party.

Bitter after spending six months in pre-trial custody, Mr Rey said he was being made a scapegoat.



Maastricht debate forgotten: Grape pickers near the Beaujolais village of Fleurie on the first day of the grape harvest. The crop suffered badly when half the grapes were destroyed by late frosts.

Italy's drive intensifies against Mafia bosses

By Robert Graham in Rome

THE extradition from Venezuela over the weekend of the three Cuntrera brothers, regarded as key figures in an international network of drugs and money-laundering, has added to a string of recent successes by the Italian authorities in arresting suspected bosses of organised crime.

Over the past two weeks the bosses of six leading families running large crime syndicates have been arrested or extradited, as in the case of the Cuntreras.

These arrests attest to a tougher attitude by the Italian government following the assassinations of the country's two principal anti-Mafia magistrates, Mr Giovanni Falcone and Mr Paolo Borsellino. This tougher attitude has led to

many an ironic comment about the authorities' previous complicity in allowing them to be free. But it is also the result of increased use of "super-grass" testimony from former Mafia members, who are now being held under better protection.

Another factor is believed to be increased rivalry between clans operating organised crime syndicates. Some press commentators have also speculated that those being caught after being on the wanted list for up to 10 years are no longer significant figures and have been pushed aside by new clans.

The Italian government had previously submitted three extradition requests to the Venezuelan government - in 1983, 1985 and 1990 - for Pasquale,

Paolo and Gaspare Cuntrera. All were denied.

Headed by 62-year-old Pasquale, the Cuntrera family is alleged to have become an essential link for Cosa Nostra, the Sicilian umbrella organisation of the Mafia, in importing heroin via Canada into the US.

Allegedly, they moved latterly into Latin American cocaine and money-laundering for a variety of rival Sicilian clans. They lived openly in Caracas, protected by friends in high places, and their arrest was only conceded on September 8, after strong additional pressure on the Venezuelan government from the FBI and Drug Enforcement Agency.

In the final days before his assassination in June, Mr Borsellino had been on

their trail, while the late Mr Falcone had always insisted on the importance of bringing them to justice.

The principal other recent arrests were on August 31 Mr Saro Mammi, the undisputed boss of the 'ndrangheta, the Calabrian Mafia; on September 6 Mr Giuseppe Madonia, believed to be number two in Cosa Nostra and on the run since 1984; on September 11 in separate raids, Mr Carmine Alfieri, head of the clan controlling the biggest empire (allegedly with an annual turnover of £1,500bn, or \$1.4bn) in the Camorra, the Naples Mafia; Mr Antonio Rizzuto, a leading figure in the Sacra Corona Unita, the emerging Mafia in Puglia; and Mr Francesco Cannizzaro, a boss from the Catania cocaine trade.

The government has already begun an investigation into the illegal traffic of arms in French jails following the Clairvaux shoot-out. The ruling Socialist party yesterday suggested that next year's national budget should make extra provision for the prison system.

West Europe's auto market shows 3 per cent increase Germans boost new car sales

By Kevin Done, Motor Industry Correspondent

NEW car sales in west Europe rose by an estimated 3 per cent in August to 1,043m as registrations recovered in Germany, the single biggest European market, following July's sharp fall.

According to industry estimates, new car sales in the first 8 months of the year, at 9.56m, were 2.5 per cent lower than in the corresponding period a year ago, however. Sales have fallen year-on-year in four of the last six months.

August sales in both Italy and Spain were sharply lower than a year ago, and demand also fell in many of the smaller west European markets.

Overall, new car sales in August were lower than a year ago in 13 of 17 west European markets, while in the first 8 months sales fell in only 7 markets.

The trend in European new car sales in the last two months has been distorted by the pattern of demand in Germany.

New car registrations in Germany were inflated to a record level in July last year, as the demand generated by unification peaked.

Sales were also lifted by the expiry of tax incentives on cars equipped with catalytic converters. Sales in August last year fell heavily, however.

The reverse has happened this year.

German new car sales in July fell by 36 per cent from last year's record level but rose

last month by an estimated 39 per cent to some 229,000 from last year's low level of 165,000. In the first 8 months of the year, however, German new car sales are estimated to have fallen by 11.5 per cent to 2.7m from last year's record level of 3.13m.

Most importantly the immediate prospects for new car demand in Europe were clouded last month by the falls in Italy and Spain.

These two markets had hitherto been two of the most buoyant in Europe over the past year.

New car sales in Spain in August fell by 14.8 per cent from a year ago.

Sales in the Italian market dropped by 8 per cent. The Fiat group of Italy, which includes Alfa Romeo and Lancia, continues to lose ground.

It has now fallen from second to fourth place in the west European new car sales league - behind the VW group of Germany, General Motors of the US and the Peugeot group of France, which includes Citroën.

Fiat group sales have fallen by an estimated 7.1 per cent to 1.15m in the first eight months, which has depressed its market share to 12 per cent from 12.7 per cent in the corresponding period a year ago.

Renault, the French car maker, has made the strongest gains among the big six volume car makers in Europe, with a 5 per cent jump in sales volume thanks most importantly to the success of its Clio small car range. Renault's Mar-

WEST EUROPEAN NEW CAR REGISTRATIONS				
January-August 1992				
	Volume (Units)	Volume Change (%)	Share (%) Jan-Aug 92	Share (%) Jan-Aug 91
TOTAL MARKET	9,555,000	-2.2	100.0	100.0
MANUFACTURERS:				
Volkswagen (incl. Audi, SEAT & Skoda)	1,859,000	+2.8	17.3	16.5
Seat	1,177,000	-3.4	12.3	12.5
Opel/Vauxhall (US & Saab)	1,125,000	-3.3	11.8	11.9
Opel/Vauxhall	1,125,000	+2.8	0.1	0.4
Peugeot (incl. Citroën)	1,160,000	+2.1	12.0	11.5
Fiat (incl. Lancia, Alfa Romeo, Ferrari, Innocenti, Maserati)	1,150,000	-7.1	12.0	12.7
Ford (Europe, US & Jaguar)	1,118,000	-5.6	11.7	12.1
Renault	1,109,000	-5.4	11.6	12.0
BMW	1,006,000	+1.3	10.5	9.8
Nissan	318,000	+11.3	3.3	2.9
Mercedes-Benz	312,000	-6.1	3.3	3.4
Toyota	285,000	-10.2	3.0	3.3
Volvo	222,000	-14.8	2.3	2.7
Mazda	194,000	-9.9	2.0	2.2
Volvo	147,000	+2.9	1.5	1.5
Honda	126,000	+1.5	1.3	1.3
Mitsubishi	116,000	-19.5	1.2	1.5
Total Japanese	1,129,000	-8.5	11.8	12.6
MARKETS:				
Germany	2,758,000	-11.5	29.0	32.0
Italy	1,713,000	+4.7	17.9	16.8
France	1,368,000	+0.2	14.3	14.0
United Kingdom	1,176,000	-2.5	12.3	12.3
Spain	699,000	+14.0	7.3	6.3

Source: Industry estimates. *Data includes 51 per cent and management control of Spain. **Data includes 51 per cent and management control of Spain. ***Data includes 51 per cent and management control of Spain.

ket share has jumped to 10.5 per cent from 9.8 per cent a year ago.

Japanese new car sales in west Europe have fallen by an estimated 8.5 per cent this year, most importantly under the impact of

the decline in the German market, where they have a 14 per cent market share.

The Japanese share in the overall west European market in the first 8 months fell to 11.8 per cent from 12.6 per cent in the same period a year ago.

EC energy charter faces delay

By Andrew Hill in Brussels

FORMAL agreement on the European energy charter - aimed at boosting energy investment in central and eastern Europe - is being held up by differences over certain "basic questions of principle", according to an EC official.

Representatives of the 47 signatories of the charter - which is aimed at boosting energy investment in central and eastern Europe - met last week to prepare for next month's full session of the energy charter conference.

But they were unable to reach agreement on the crucial questions which would allow members to sign a legally binding treaty before the end of the year. The principles of the charter, agreed last December, cannot be put into practice until the treaty is signed.

Mr Clive Jones, secretary general of the charter conference, said yesterday that outstanding problems included:

- Non-discrimination - the charter would force signatories to treat foreign energy investors in exactly the same way as domestic investors. But Norway, for example, wants to retain the right to give preference to its own oil companies;
- The environment - there is disagreement about which conclusions of this year's Rio summit on the environment should be included in the treaty;
- Transit rights;
- The length and conditions of transition periods for east European countries to implement the charter.

Gibraltar talks seek to break EC borders deadlock

By Tom Burns in Madrid

BRITISH and Spanish diplomats meet in London today to resume negotiations on Gibraltar, amid fears that failure to achieve common ground over the future of the British crown colony could block European Community hopes to allow free movement of EC nationals in the 1993 Single Market.

Spanish objections to EC nationals freely entering the Spanish mainland from Gibraltar next year prevented agreement on the Community's External Frontiers Convention, EPC, at both the Maastricht and the Lisbon summits. The Madrid government is likely to implement its boycott again at the December summit in Edinburgh unless it perceives substantial progress on the long-standing dispute.

Today's meeting of Gibraltar co-ordinators, representing the two foreign ministries and the governor of the colony, is the first for 18 months and will seek to prepare an overview ministerial meeting to discuss the future of the Rock. A 1985 agreement between London and Madrid, which lifted Spain's blockade on Gibraltar, established periodic meetings of co-ordinators and annual talks of foreign ministers, but the last bilateral meeting was held in February last year.

During the interval, Spain has used the expectation of free movement for EC nationals to press its Gibraltar

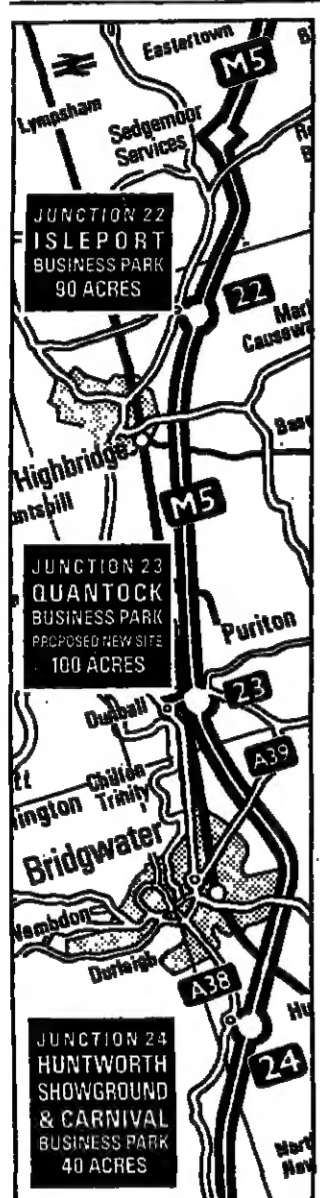
claims. The Madrid government argues that if the colony is to be considered a European entry point under the terms of the EPC, then Spanish immigration authorities should also be present on the Rock to monitor incoming travellers.

Madrid successfully used the EC framework to put pressure on Britain in 1987 when a threatened Spanish veto to the Community's air traffic liberalisation programme forced the exclusion of Gibraltar airport from the agreement. Similar Spanish obduracy now could either exclude Gibraltar from the EPC, a move which the UK opposes, or delay the 1993 convention indefinitely.

At the centre of the Gibraltar dispute is Spain's demand for territorial sovereignty over the Rock, the UK's commitment not to change the status of the colony against the wishes of the people of Gibraltar, and the adamant hostility among the 20,000-old Gibraltarians to any deal with Madrid.

Diplomats held out little hope of progress at today's meeting, but an agreement to November date for the ministerial meeting. The UK would, however, be pressed to review proposals tabled by Spain at the time of the 1985 accord which suggested a leaseback formula or power-sharing to break the deadlock.

The proposals, which were tied to Spain regaining territorial sovereignty after an unspecified period, have never been formally answered by Britain.



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NEWS: INTERNATIONAL

Arabs back UAE in island row with Iran

IRAN yesterday responded angrily to a claim by Arab League foreign ministers that its presence on the disputed island of Abu Musa threatened peace in the region. Our Middle East Staff reports.

Mr Amr Moussa, Egypt's foreign minister, said after a meeting of the 21-member Arab League that Iran's continued presence on the island in the Gulf was a "dangerous development" and urged Iran to review its position there.

But Mr Morteza Sarmadi, an Iranian foreign ministry spokesman, said the Arab stance was irresponsible.

The Abu Musa dispute flared last month when Iran, which maintains a garrison on the island and shares its oil revenues with Sharjah, one of the UAE's seven emirates, turned back a boatload of foreigners, most employed by the UAE.

Abu Musa and two nearby islands, the Greater and Lesser Tumbs, have been in Iranian hands since 1971 but are claimed by Ras al-Khaimah, another of the UAE's constituent emirates.

Tehran support for Turkey

Iran has assured Turkey it will support Ankara's fight against secessionist Kurds, a Turkish minister visiting Tehran, said yesterday. Reuter reports from Ankara. Mr Ismet Sezgin, Turkey's interior minister, said after meeting Iranian President Ali Akbar Hashemi Rafsanjani that Iran had agreed to a joint fight against the PKK (Kurdistan Workers Party) which aims to form a Marxist state encompassing parts of Iran, Turkey, Iraq and Syria.

Troops in Somalia

A vanguard of 40 armed UN troops arrived in the Somali capital, Mogadishu, yesterday - the first batch of 500 Pakistani soldiers dispatched to secure the port and airport and ensure food convoys reach starving people, Reuter reports from Mogadishu.



Chuan Leekpai: 'Politeness is unfortunately seen as a weakness'

Angel Chuan must prove strength

Victor Mallet assesses the future for the soft star of Thailand's anti-military camp

UNLIKE his immediate predecessors, Mr Chuan Leekpai, the Democrat party leader who expects to become prime minister of Thailand following Sunday's general election, is neither an army general nor a western-educated aristocrat.

His father was a teacher and his mother a vegetable seller. "I am an ordinary man who came from a rather poor family," he said recently.

And, unlike some of its rivals, the Democrat party was not formed on the eve of the election for the convenience of a few influential politicians with short-term common interests; it was founded 46 years ago and is Thailand's oldest.

The rise to prominence of Mr Chuan and the Democrats is an important but still tentative change of direction for contemporary Thai politics.

The Democrats impressed many voters by their cautious handling of the clashes between the armed forces and pro-democracy demonstrators, which culminated in the killing of at least 50 protesters in May. They opposed military interference in politics and

business, but attempted to resolve the dispute in parliament, warning of the dangers of street confrontations.

They were rewarded with the largest bloc of seats in the 360-seat House of Representatives, increasing the number of their MPs to 79 from the 44 they won in the previous election and winning several Bangkok seats from the Palang Dharma (Moral Force) party of Mr Chamlong Srimuang, the fervent Buddhist who led the street protests.

Just as Bangkok intellectuals have grown suspicious of what they regard as Mr Chamlong's political posturing, so have Thai entrepreneurs begun to distrust what they see as his idealistic egalitarianism.

Foreign and local business immediately welcomed the probability that Mr Chuan would head a coalition centred on the parties that opposed the military in May.

Yesterday, the Stock Exchange of Thailand gave a warm welcome to the results, with the SET index rising 2 per cent, to reach 817.95 points.

The 54-year-old Mr Chuan, a lawyer by training, lacks eco-

OFFICIAL RESULTS OF SEATS WON ON SEPTEMBER 13 (PREVIOUS ELECTION ON MARCH 22 IN BRACKETS)

Democrat	79	(44)
Chart Thai	77	(74)
Chart Pattana*	50	(-)
New Aspiration	51	(72)
Palang Dharma	47	(41)
Social Action	22	(31)
Seritham	8	(-)
Solidarity	8	(6)
Muanchon	4	(1)
Prachakorn Thai	3	(7)
Rassadorn	1	(1)

* New party. Votes around 52 per cent (56 per cent)

mic expertise, but he has promised to reinforce existing policies aimed at liberalising trade; improving the competitiveness of Thailand's export industries; and diverting more resources to neglected regions.

He will attempt to construct a coalition this week, and may choose a private sector technocrat - the names of several senior bankers are being bandied about - as finance minister.

Mr Chuan, however, will need to overcome some formidable obstacles. He has been an elected MP for 23 years, and has held portfolios in nine previous governments, but his critics say he lacks initiative and has failed to shine in any of his ministerial posts. One western diplomat described him yesterday as a "wimp".

Mr Chuan acknowledged the accusations in a campaign speech this month when he said he might be "too soft and not aggressive", although he declared that "when it comes to making decisions, I am resolute and strong."

In an earlier interview with The Nation newspaper, he said: "Politeness is unfortunately seen sometimes as a weakness."

The Democrat party itself, although strengthened by popular and energetic activists such as Mr Apisit Vejajiva, the Bangkok MP, is as prone to splits as other Thai parties and has never been a clear-cut success in government.

Even more worrying for advocates of stable government will be the fragility of any coalition the Democrats are likely to create in their negoti-

ations this week.

The loose alliance of the four so-called "angel parties", which opposed the military in May - the Democrats, Palang Dharma, the New Aspiration party and Solidarity - together has only 185 seats, or a majority of five, and the NAP is regarded as a weak link in the group.

Mr Chuan is likely to bring in at least one smaller party, and possibly the Chart Pattana (National Development) party of Mr Chatichai Choonhavan, the former prime minister overthrown by the armed forces in the February 1991 coup d'état.

The reality is that the Democrats made many of their gains at the expense of their alliance partners, while Chart Thai (Thai Nation), a "devil party" which supported the army, won 77 seats.

The level of violence and vote-buying in the election campaign, in keeping with Thai tradition, also suggests that it will be some time before politicians such as Mr Chuan can safely claim to have consigned corruption and military coups to the history books.

Patten to seek Major's endorsement for policy proposals

China to get briefing on HK poll

By Simon Holberton and Edward Mortimer in Hong Kong

BRITAIN is to brief China on plans for conducting Hong Kong's 1995 elections before Mr Chris Patten unveils them next month in his first key policy speech as governor.

Mr Patten is due in London today to seek the personal endorsement of Mr John Major, the British prime minister, for his programme for the last five years of British rule in Hong Kong, which reverts to Chinese sovereignty in 1997.

He will also give a preview to Mr Douglas Hurd, the foreign secretary, who will brief Qian Qichen, his Chinese counterpart, when they meet in New York at the United Nations General Assembly next week.

Mr Patten will make public his programme for Hong Kong's constitutional and social development when he opens the Legislative Council session on October 7. He will visit Beijing soon afterwards.

China will scrutinise with particular anxiety the proposals for the 1995 elections, which will be decisive for Hong Kong's political stability in the run-up to and beyond 1997.

Mr Patten is likely to tell the Chinese that they must accept a substantial degree of democracy in Hong Kong if they want a successful takeover of the colony.

He is expected to stand firm against pressure to form a cabinet composed of representatives from the legislature.

He is expected to encourage the development of a more independent and effective legislature by which the government would need to win its consent for its legislation but would not depend on a parliamentary majority.

This could mean an increase in the number of democratically elected members above the 20 already agreed, or - if China prefers - a broader base for the so-called "functional constituencies", representing

mostly professional and business interest groups, which choose 30 members. The governor has the power to make these constituencies more representative of the population at large.

He also has discretion to decide the electoral system for the direct elections. The liberals favour first-past-the-post, while China and its conservative supporters in Hong Kong prefer a proportional system.

Mr Patten is expected to announce government spending proposals for housing, education, the environment and other social policies as well as far-reaching constitutional reforms which he hopes will lay the foundation for a smooth transition to Chinese sovereignty in mid-1997.

Today, Mr Patten will also brief the UK government on his proposals for solving the impasse with China about funding Hong Kong's new airport. This will be presented to China's representatives at a meeting in Hong Kong tomorrow.

Indian liberalisation defended

By Stefan Wagstyl in New Delhi

MR Manmohan Singh, (right) the Indian finance minister and chief architect of a far-reaching economic liberalisation plan, yesterday rejected suggestions that his programme is running out of steam.

"There is no basis in such complaints. We have done all that we promised," said Mr Singh in an interview with the Financial Times. He was speaking on the eve of his departure on a visit to the UK and the US, during which he will take part in the annual meeting of the World Bank and the International Monetary Fund.

Mr Singh, a Harvard-trained economist and former bureaucrat, won widespread praise for guiding India out of a balance-of-payments crisis and into a World Bank-approved programme of radical reforms last year, including the easing of decades-old government economic controls and the partial floating of the rupee.

But delays in implementing important measures, such as cutting the government's deficit, has exposed Mr Singh to growing criticism. The government has also run into trouble over the alleged involvement of some junior ministers in the Bombay stock market scandal.

Only last week the Reserve Bank of India, the central bank, warned Mr Singh and his ministers of the risk of the reforms getting bogged down. "There is still a hiatus between policy formulation and implementation at the ground level," the bank said in a report.

Mr Singh said implementation took time because decision-making involved consulting many different interests. For example, he said the government was talking to trade

unions about restructuring large loss-making state-owned enterprises. He conceded the Bombay stock market scandal had affected the pace of financial reform but only "marginally".

Mr Singh said the economy was progressing along lines agreed with the World Bank and IMF, with growth likely to be in the 8-9 per cent range in real terms in the financial year which started in March 1992, compared with 2.5 per cent last year. He was disappointed that a sharp devaluation in the rupee since last year has not as yet produced a significant increase in exports.

Nevertheless, Mr Singh said, shortfalls in export growth had been matched by improvements in other elements in the current account, such as a sharp decline in gold smuggling.

He welcomed the increase in planned foreign investment which his reforms have stimulated. The total of \$1.4bn in the year to March, far exceeded the previous annual level of \$100m-\$200m.



Racing Driver Bernard Santal of Ste. Maxime, France, fails to win over his baby daughter Sarah.

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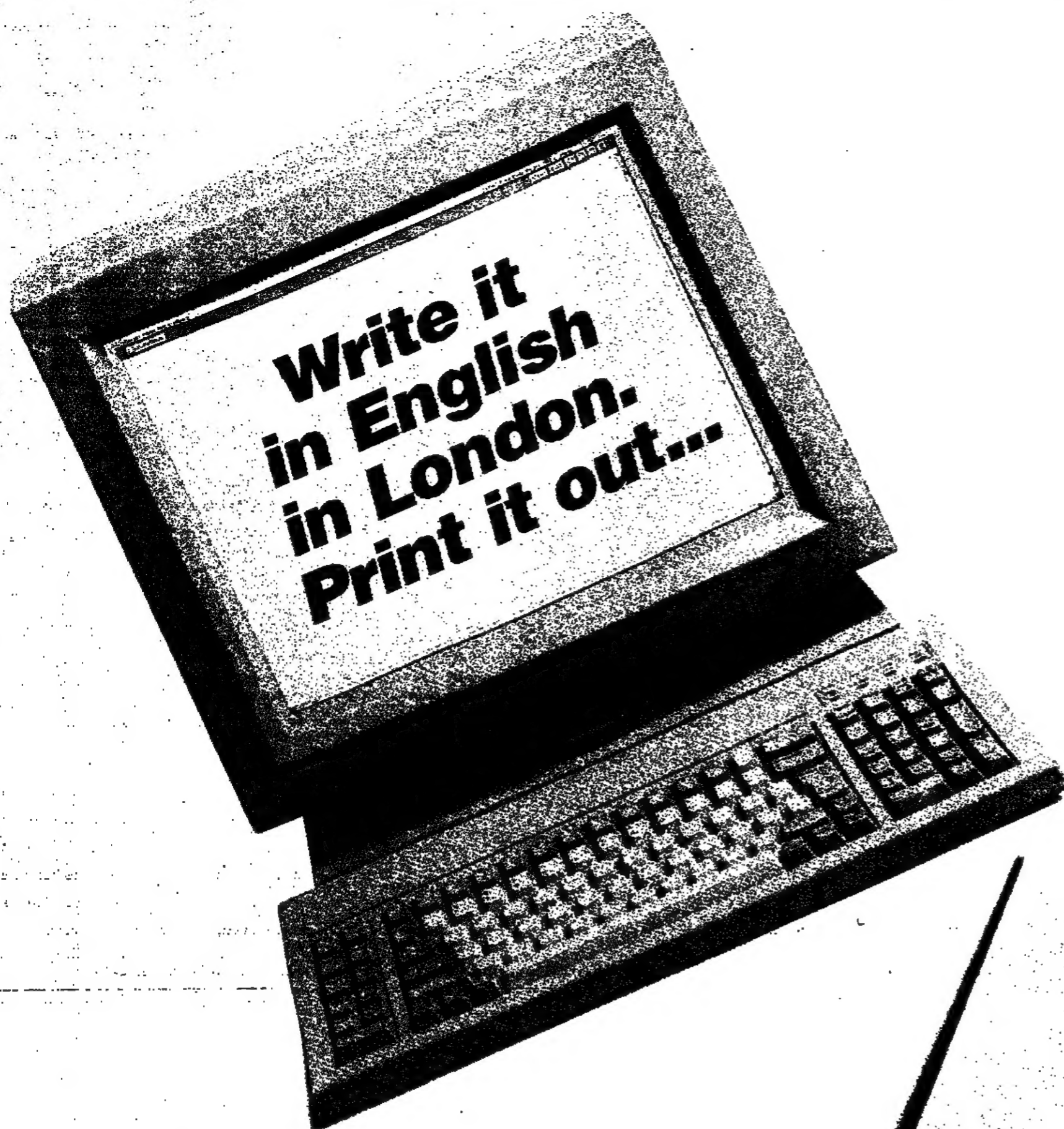
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NEWS: THE AMERICAS

White House accused of loan cover-up

By Alan Friedman in Atlanta

THE Bush administration sought to "suppress the truth" about US government knowledge of more than \$5bn (£2.5bn) in illegal loans made to Iraq by the Atlanta branch of Italy's Banca Nazionale del Lavoro (BNL), an Atlanta court was told yesterday.

Mr Bobby Lee Cooke, a Georgia lawyer who is representing Mr Christopher Drogoul, the former BNL Atlanta branch manager, also began naming senior BNL executives in Rome who, he alleged, helped orchestrate the loans. BNL has in the past denied that anyone in its Rome headquarters knew about the Iraqi loans.

Mr Cooke, seeking to transform what was to have been a sentencing hearing for Mr Drogoul into an impromptu trial, said he would provide evidence in court to explain how the US government "from the very onset has tried to suppress the truth and mislead the court".

He called the BNL case "the mother of all cover-ups" and said the position of the Department of Justice "denies all logic and Socratic reasoning and, most importantly, is not the truth".

In a 55-page sentencing memorandum the Justice Department had accused Mr Drogoul of being the sole orchestrator of the Iraqi loans, more than \$5bn of which went to help President Saddam Hussein's nuclear, chemical weapons, cluster bomb and ballistic missile projects.

Mr Drogoul admitted his guilt in June and reached a co-operation agreement with US prosecutors. However, Mr Cooke said he cancelled the agreement because the government was trying to put words into his client's mouth.

Judge Marvin Shoob, presiding over the BNL case, appears sympathetic to Mr Cooke's argument. The judge told prosecutors yesterday their theory that Mr Drogoul orchestrated the entire loan scheme was "difficult to believe".

In court yesterday Mr Cooke said he would introduce evidence to show that:

- US intelligence officials working for the National Security Agency (NSA) made regular visits to Mr Drogoul in Atlanta and were briefed on the BNL-Iraqi loans.

- Mr Giacomo Fedde, the former director general of BNL, was among those aware of the Atlanta loan.

- A senior US government official and the Iraqi ambassador met Mr Drogoul in Washington in the autumn of 1988 and encouraged him to provide Iraq with US government loan guarantees.

- Senior White House and State Department officials interfered in the BNL case by telephoning prosecutors in Atlanta.

Aides to Judge Shoob said they expect the unusual Atlanta court hearing to continue all week as both the government and Mr Cooke provide evidence and question witnesses.

Hawaiian island recovers

TROOPS patrolled and helped clean up neighbourhoods and officials tended to more than 7,000 people in shelters as the hurricane-hit Hawaiian island of Kauai took its first halting steps toward normalcy yesterday, AP reports from Lihue.

Federal officials said 10,000 homes were badly damaged

when Hawaii's worst storm this century tore across the resort island. Most of the island's 70 hotels sustained serious damage.

A limited phone service was restored, giving the island's 52,000 residents their first link to the outside world since the storm hit on Friday.



President George Bush (right) and former President Ronald Reagan at a rally in Orange County, California. About 100 demonstrators booed Mr Bush during his speech.

NY Senate race sets new standards in seediness

By Alan Friedman in New York

EVERYONE knows that New York politics can be among the roughest and meanest in the US. But even by New York standards the four-way Democratic Senate primary race - culminating in today's vote - will go down as one of the most vitriolic campaigns in many years.

The winner of this melee will challenge Mr Alfonse "Al" D'Amato, a right-wing politician from suburban Long Island, who has thus far trumped about the US citing the fact that he has been rebuked rather than censured by the Senate ethics committee as proof that he has been exonerated of past influence-peddling charges.

Mr D'Amato is considered vulnerable this year, not least because of his chequered record. But the Democrats have engaged in so much mud-slinging that there is unlikely to be much high ground left to be gained by his opponent.

Although her substantial early lead has nearly evaporated, the front-runner among the Democrats is 56-year-old

Ms Geraldine Ferraro, the former congresswoman from the Queens who in the 1984 presidential election served as Mr Walter Mondale's controversial running mate. Ms Ferraro's troubles first began during the 1984 campaign when allegations were made about the legality of her husband's business dealings. He pleaded guilty to a misdemeanor after the campaign.

An unabashed supporter of capital punishment, Ms Ferraro styles herself as a no-nonsense feminist with a working-class background.

It is the negative campaigning of her rivals that has raised the possibility that she may not make it after all. Advertisements by rivals have accused Ms Ferraro's landlord husband of ties to the Mafia and have repeatedly alleged he rented a house to a child pornographer.

Ms Ferraro's keenest challenger, New York State attorney-general Mr Robert Abrams, has not been hesitant to make use of the controversy. Neither has Ms Elizabeth Holtzman, a former congresswoman and New York's current comptroller. Oddly enough the only can-

didate who has not attacked Ms Ferraro over ethics is the normally demagogic Rev Al Sharpton. He arrived at a televised debate last week with a symbolic bucket of mud for his colleagues. The debate among the Senate Democratic primary candidates became so heated that the moderator kept intervening to say: "Ladies, ladies, ladies, Ms Holtzman, Ms Ferraro..."

Issues have thus taken a back seat to insults, which means that even if Ms Ferraro does win today, she is unlikely to be the unblemished sort of challenger who can make much of the various investigations of Mr D'Amato.

The seediness of this year's New York Senate race looks set to continue.

Jurek Martin adds from Washington: Another race of interest concerns Congressman Stephen Solarz, the Democratic foreign policy expert.

His old safe House of Representatives seat in Brooklyn has been redrawn - with the purpose of promoting Hispanic representation in Congress - and he may be vulnerable to the challenge of Ms Elizabeth Colon, an advocate of Puerto Rican interests.

Presidential fight shifts to US timber heartland

By Jurek Martin in Washington

PRESIDENT George Bush and Governor Bill Clinton both appeared in Oregon yesterday in an attempt to wrest some tactical advantage from a corner of the country riven by the debate over economic development versus the environment.

Mr Bush was expected to use his visit to portray the Clinton-Gore presidential ticket as being in the pocket of ecological extremists. As a prelude last week he issued a federal edict making possible the logging of more dead timber.

While the president tours the small towns at the heart of the timber industry, Mr Clinton's appearances are concentrated more on urban areas, where his message on the need to combat general economic deprivation is likely to be better received.

He has also promised to mediate in the long-running dispute between the industry and environmentalists, at its most bitter in the controversy over preservation of the Northern Spotted Owl.

But the candidates' twin focus on the west coast in the first part of this week illustrates a broader tactical purpose. For Mr Clinton it is to consolidate his strong position in the region, while for Mr Bush it is to tie his opponent down in a part of the country which is probably going to vote for the Democrats in any case. State polls show Mr Clinton ahead by wide margins in California, Oregon and Washington. Indeed, his lead in national polls - by 53-38 per cent in the latest Newsweek survey - in good part reflects his edge in California and New York, the biggest states.

However, some analysts sug-

gest this means Mr Clinton's potential vote in November is "inefficiently" allocated and implies that the race in great swathes of the country, especially the industrial midwest and some of the border southern states, are closer than might appear to be the case.

Both campaigns concede that these states, along with Florida and Texas, are more critical battlegrounds than the far west. But it would be hard for Mr Bush to write off California, in particular.

According to the Los Angeles Times newspaper, former president Richard Nixon, a Californian himself, is urging Mr Bush to forget about the state, concentrate on the midwest, and stop associating with extreme conservatives. Mr Nixon, the newspaper reported, thinks the president's chances of re-election are "about 30 per cent".

Spending row risks new government shutdowns

By George Graham in Washington

US government agencies are once again threatened with shutdown as President George Bush and Congress prepare for a confrontation over Washington's most sensitive issue - spending.

Mr Bush promised his cheering supporters at last month's Republican convention that he would veto any spending bills passed by Congress that went above his budget requests.

At least five, and possibly as many as seven, of the 13 appropriations bills which allot money to government agencies appear to be heading for a presidential veto, but Democratic leaders in Congress say they are in no mood to compromise.

The government cannot continue to spend money after the new fiscal year begins on October 1 unless new appropriations legislation is passed. Several times in the 1980s, federal

agencies had to send staff home for a few hours in symbolic confrontations between the White House and Congress.

But usually a shutdown has been avoided by an omnibus bill to continue funding of agencies at current levels.

The Democrats' congressional leadership says it has no interest in resorting to this kind of stop-gap bill.

The president's veto strategy is designed to highlight his battle with Congress, and paint the Democratic-controlled legislature as relentless spend-thrifts.

The strategy is risky, however. Although several individual appropriations bills would spend more than Mr Bush asked for in his January budget request, others underbid him significantly.

Bills covering the labour, health and human services, treasury, transportation and interior departments appear to exceed the president's budget

requests, and the inclusion of funding for abortion counselling makes some other bills look like veto-bait.

But bills covering defence, foreign aid and space come in well under budget and Congress has even cut its own operating budget below the president's request. Overall, the 13 appropriations bills would spend more than \$108n (£53.3bn), less than Mr Bush asked for.

And on all the biggest battles to cut government outlays - the space station, the super-collider, the Strategic Defence Initiative - the administration has been on the side of increased spending.

The only appropriations bill to pass Congress before the Republican convention, covering agriculture, exceeded the budget request but Mr Bush signed it with no visible qualms.

The Office of Management and Budget declined to comment.

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and ready for your
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the concierge
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NEWS: WORLD TRADE

US-UK battle puts airline at risk

By Paul Belts,
Aerospace Correspondent

THE future of a small Caribbean airline is being threatened by the dispute between the US and the UK over liberalising air services between the two countries and the proposed British Airways acquisition of a 44 per cent stake in USAir.

Cayman Airways, the national carrier of the UK Caribbean dependency, has warned it risks going out of business unless it secures relief from what it regards as excessive competition from US airlines on the

Miami-Grand Cayman route. It wants the UK to resume negotiations with the US to limit US flights from Miami to Grand Cayman from four to three services a day.

Negotiations between the two countries broke down this year after the UK rejected US demands for greater access to the UK market in return for dropping one daily service to Grand Cayman.

The UK dependency is now urging the UK government to offer new concessions to US airlines to clear the way for an agreement on limiting US flights to the Cayman Islands and safeguarding the

future of Cayman Airways.

US carriers have recently intensified pressure on their government to negotiate new rights for more US airline services to London and regional UK airports.

They have asked their government to block BA's proposed alliance with USAir unless they can secure these additional rights. In turn, the UK has defended the BA-USAir deal and refused to grant US airlines greater access into the UK unless UK carriers gain more access to the US.

Cayman Airways has complained that the UK appears to feel a giant carrier like BA

needs more protection from US competition than the tiny Cayman Airways, which operates a fleet of four Boeing 737 jets.

After showing a small operating profit in 1989, Cayman Airways has seen its losses grow as US airlines have stepped up competition on the Miami-Grand Cayman route.

The airline lost \$2.6m (£1.31m) in 1990, \$6.6m last year and \$9.2m for the 12 months ended last June. Price Waterhouse has declared the airline insolvent.

It has continued to be propped up by large cash infusions from the Cayman Islands government with a subsidy, in

the latest year, equivalent to 10 per cent of the Cayman Islands government's entire budget.

The government says it can no longer sustain such support. Ansett, the domestic Australian airline owned jointly by Rupert Murdoch's News Corporation and Australia-based transportation company TNT, has forged marketing links with British Airways, United Airlines, Cathay Pacific and All Nippon Airways, AP-DJ reports from Sydney.

The arrangements replace a marketing agreement between Ansett and Qantas Australia's government-owned international carrier.

Textron to replace engines on Russian regional jets

By Paul Belts,
Aerospace Correspondent

TEXTRON Lycoming, the aero-engine division of the US Textron group, has reached a long term collaboration agreement with the Yakovlev Design Bureau to re-engine Russian YAK-40 regional jetliners.

The US company also plans to provide engines for a proposed Russian widebody business jet, the YAK-62.

The agreement reflects increasing Russian efforts to

upgrade their existing aerospace products and future programmes to western standards.

Rolls-Royce of the UK and Pratt & Whitney of the US are already involved in Russian aircraft re-engineing programmes as Russian manufacturers step up their drive to try to market their products in western markets.

Textron Lycoming will be working with Yakovlev on plans to replace the three Russian engines powering the YAK-40 regional jet with two

Lycoming LF507 turbofans.

The YAK-40 is a 27-32 passenger regional jetliner specifically designed to fly in and out of smaller airports throughout the Commonwealth of Independent States and eastern Europe where runway conditions can be rough.

Depending on the needs of airlines in the Russian federation, all or a part of the current YAK-40 fleet of about 1,000 aircraft could be candidates for the re-engineing programme.

Investment plea by Manila

By Kieran Cooke
in Kuala Lumpur

THE Philippines' foreign secretary, Mr Roberto Romulo, has made a plea for more investment in his country by the countries of the Association of South-East Asian Nations (Asean). Speaking on a visit to Malaysia, he described the present level of intra-Asean trade as lamentable.

At present only 2 per cent of total Philippines trade is with Malaysia, while under one per cent of Malaysia's total trade is with the Philippines.

Mr Romulo said that Asean - which groups the Philippines, Malaysia, Indonesia, Brunei, Thailand and Singapore - would never be credible to others if it did not make serious moves towards better trade relations.

Trade relations in the region have been much discussed since the announcement of the formation of the North American Free Trade Agreement (Nafta). Several countries in the region say that Nafta could become a trade bloc and seriously affect export performance.

Malaysia is advocating the formation of an East Asian Economic Caucus (EAEC) to combat what it sees as the division of the world into competitive trading groups.

US and EC try to halt oilseed war

By Nancy Dunne
in Washington

THE US and the EC this week are starting fresh talks in Geneva in the hopes of averting \$1bn in US sanctions and a ruinous trade war over the Community's oilseeds subsidies.

Both sides have sent signals that they are ready to find grounds for settlement. EC officials have hinted they may be able to modify their oilseeds subsidies to reduce production when they implement new acreage reduction provisions of the Common Agriculture Policy.

The American Soybean Association (ASA) has won two cases against the EC in the Geneva-based General Agreement on Tariffs and Trade (GATT), and has urged tough action by the US. Now it is showing signs that it is ready to compromise.

An ASA spokesman said it was "important that the EC bring forth a proposal that is a solid step towards addressing the injury suffered by US soybean producers."

If the talks fail to reach agreement, the US has until Friday to notify the GATT Council that it wants the issue on its September 29 agenda. At that time it could announce its intention to impose sanctions.

Unctad reverts to Keynes for reflation recipe

More government investment and interest rate cuts top UN forum's priority list, says Frances Williams

THE United Nations Conference on Trade and Development (Unctad) could be excused for feeling a bit upstaged by yesterday's cut in German interest rates. Its annual report, prepared in July but only published today, advocates just that.

Unctad wants 1990s monetarism abandoned and a return to Keynesian policies on an international scale in an effort to pull the world out of recession. Higher government investment spending and a big cut in German interest rates top its list of recommendations.

Without such measures, Unctad says, the "debt deflation" afflicting the world's leading economies, notably those of the US, Japan and Britain, could ensure another "lost decade" in the 1990s. Unctad, a forum for north-south dialogue, emphasises that third world development depends on the economic health of the industrialised world.

Timing the publication of its report ahead of the annual meeting of the International Monetary Fund and World Bank later this month, Unctad challenges the IMF orthodoxy that cutting budget deficits is the key to world economic well-being. Unctad believes that, without a radical change of course, recovery from the most severe global recession since the second world war

will be feeble at best.

Its economists argue that standard economic models have failed to capture the impact of debt on spending behaviour, causing policy advisers repeatedly to be over-optimistic about the timing and strength of the upturn.

Where asset prices are tumbling and interest rates are at high levels, households and businesses are scrambling to cut indebtedness. Banks, constrained by tougher capital requirements and bruised by bad loans, are equally reluctant to lend. In these circumstances, Unctad argues, the private sector cannot lead the way out of recession.

Governments must "resume their responsibilities by acting to foster a return to financial stability and to stimulate the level of economic activity".

Unctad's prescriptions sound less iconoclastic today than only two months ago when the report went to press. The report calls for higher government spending to boost incomes, focused on investment and designed to be withdrawn once expansion is under way to minimise the impact on inflation and interest rates.

Last month, Japan announced a massive \$87bn package to boost the Japanese economy, the bulk of which comprises public spending on investment projects. Even in the US, where the budget defi-

cit is running at more than \$300bn a year, pressure is growing for a short-term fiscal stimulus to jump-start the economy.

The report urges reductions in German short-term interest rates to Japanese and US levels, to permit a general cut in rates throughout Europe and ease tensions within the European Monetary System.

It also calls on the US Federal Reserve Board to revert to pre-1979 policies of targeting interest rates instead of the money supply. Moves by the Fed to cut short-term rates - with no fewer than two dozen cuts since mid-1990 - have left long-term rates high because investors fear rates will rise again once the recovery begins, it says.

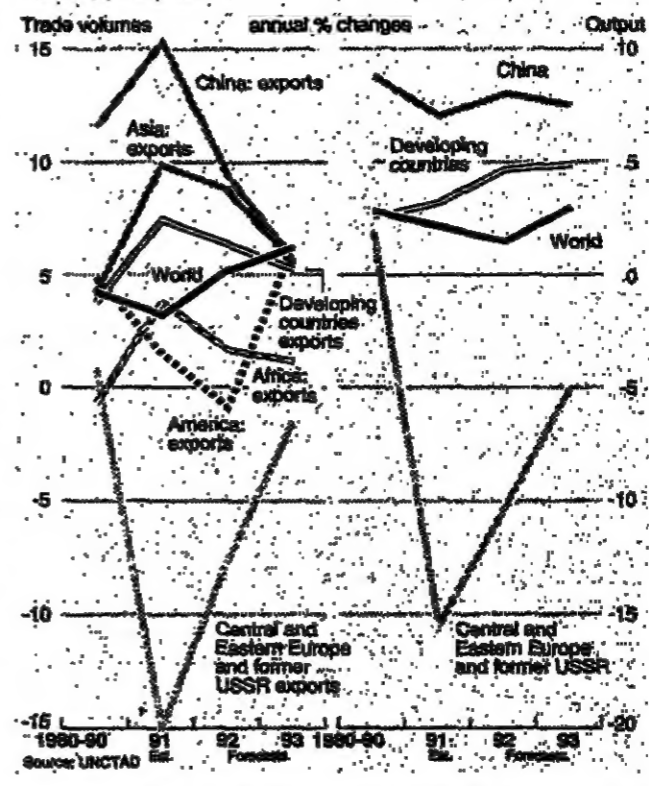
The world economy is in a "danger zone," in which recovery is threatened by financial fragility "brought about by a combination of financial liberalisation, tight monetary policies and bank deregulation" in the 1980s.

Financial deregulation encouraged households and businesses to go deeper (and more riskily) into debt, in the expectation that asset prices and incomes would continue to rise.

Debtors now face not only falling real incomes but falling asset values at a time of historically high interest rates.

Attempts by the private sec-

World trade



tor to reduce debt, for instance, by trying to sell their houses or other assets, simply reduces asset values further, lowers incomes and prolongs the recession.

Mr Kenneth Daddie, Unctad's secretary-general, says: "If the 1980s were dominated by the debt crisis in the developing world, the 1990s have started under the shadow of one in the developed."

Lowering short-term interest

rates has averted full-scale debt deflation in the US and Japan, the report says. But it is not sufficient to stimulate recovery because no one wants to borrow more while incomes and asset prices remain depressed.

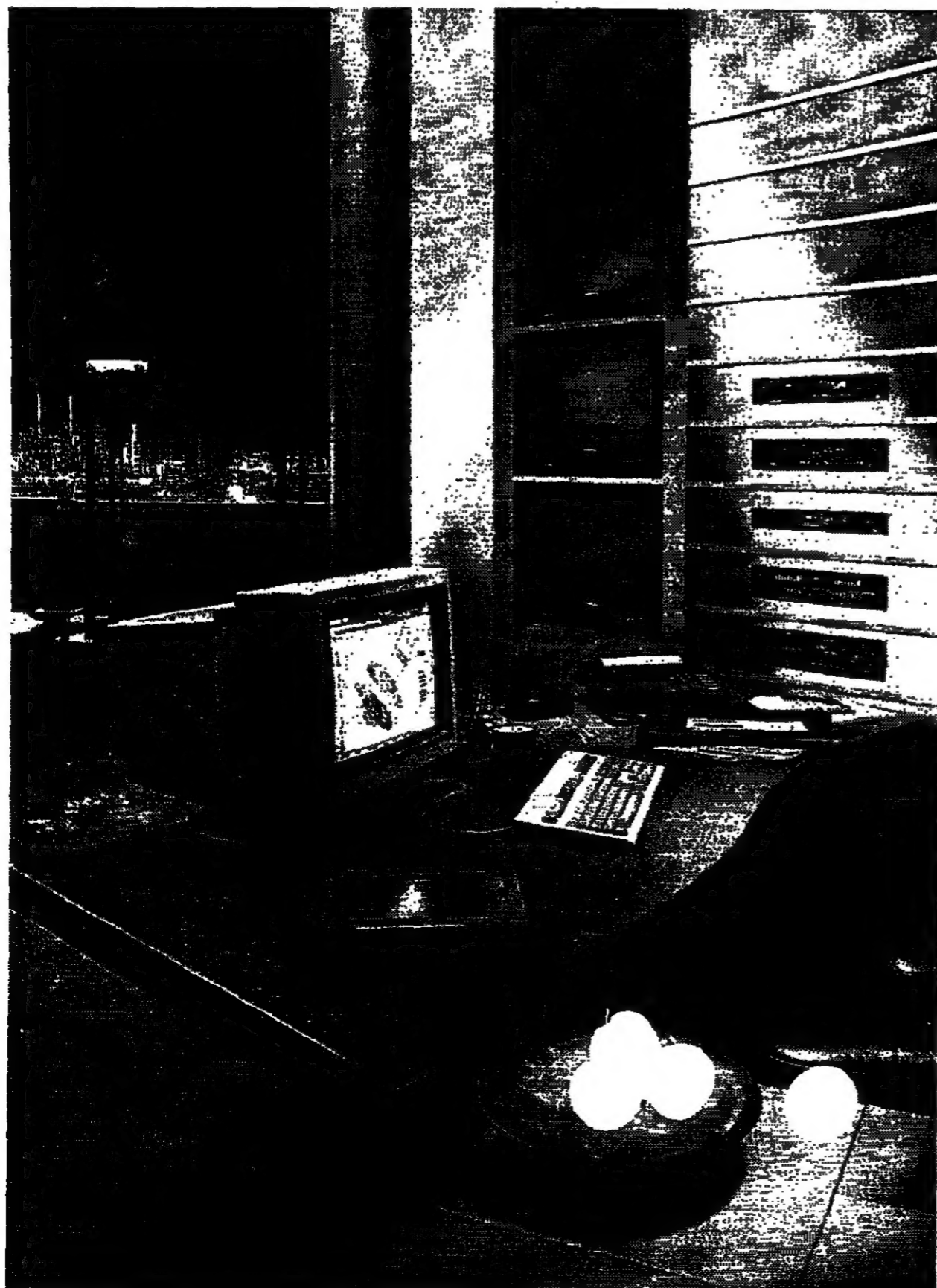
With no single country strong enough to act as locomotive for a global recovery, Unctad harks back to the 1970s with a plea for co-ordinated reflation by the leading economic powers.

The report predicts that present policies will lead to only a sluggish revival of the world economy. Its forecasts of 3 per cent output growth next year after 1.5 per cent this year already look over-optimistic. World trade is expected to rise by 2.5 per cent in 1993 from 1.2 per cent in 1992.

Long-term projections for the 1990s suggest little improvement on 1980s growth rates for the industrialised world, while higher growth rates in developing countries will be largely offset by a rapidly increasing population.

Unctad says most of the increase in per capita incomes will be in Asia (2.7 per cent a year), while in Latin America they could rise by 1.4 per cent. In Africa, per capita incomes will again stagnate or fall.

*Trade and Development Report 1992 (UN, New York; available from UN booksellers, Sales No.: E.92.ILO.7)



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A high-contrast, black and white image of a celestial body, likely a planet or moon, showing a heavily cratered and textured surface. The image is tilted diagonally, with the bright, illuminated portion on the left and the dark, shadowed portion on the right.

ASK THE WORLD OF US

NEWS: UK

Final power privatisation postponed

By Our Belfast Correspondent

THE government has postponed completion of the privatisation of Northern Ireland Electricity (NIE), Britain's last state power company.

Mr Robert Atkins, Ulster's economy minister, said a number of matters needed to be resolved before the sell-off.

"The most important of these relates to the funding of the proposed interconnector to Scotland and an application which the government has made to the European Commission for assistance towards its costs," he said.

NIE and ScottishPower reached agreement on the £200m interconnector project earlier this year and it is thought the government is seeking around £70m from the Commission towards the cost of construction.

The first part of the sell-off took place in April when Ulster's four power stations went into private hands.

British Gas bought the biggest station, Ballylumford near Larne; NIGEN, a US-Belgian consortium acquired Kilroot near Carrickfergus and Belfast West; and a management-employee buy-out team bought the Cookkeeragh plant at Londonderry.

Labour avoids early debate on Maastricht

By Ivo Dawney, Political Correspondent

THE OPPOSITION Labour Party's deep-rooted internal divisions over Maastricht were patched over yesterday when critics of the treaty slid away from a direct confrontation with the new party leader, Mr John Smith.

Instead the party's national executive committee agreed to postpone a debate on European policy until after next Sunday's French referendum, following which the leadership will draw up a formal position to present to the shadow cabinet and NEC the following Wednesday.

The decision by senior shadow cabinet ministers not to press for immediate policy changes is likely to defuse the row in the short-term. However, profound differences between Labour's keen Europeans and those determined to see substantial changes in the Maastricht treaty are unlikely to dissolve.

Mr Bryan Gould, the senior frontbencher who challenged

Mr Smith for the leadership, made clear before yesterday's meeting that he viewed the weekend realignment in the exchange rate mechanism as likely to exacerbate rather than relieve economic tensions in the longer term.

In a series of interviews with broadcasters after the meeting, Mr Smith made clear that he expected the three members of the shadow cabinet who have criticised his strategy over Maastricht and sterling to toe the line once a formal policy position is agreed.

Dismissing the likelihood of a confrontation with Mr Gould, he nonetheless signalled that he will act firmly to enforce a common stance.

Officials also made clear that the leader would not cede to pressure for a referendum on the treaty and continued to oppose any suggestion of a sterling devaluation.

The truce came after a personal appeal from Mr Smith at yesterday's national executive meeting, called to approve a new document setting out Labour's post-election goals.

Danes raise concerns ahead of UK summit

By Alison Smith

THE DANES' determination to keep control of social security policy and their fear that the Maastricht treaty would undermine Nato were among the concerns which would have to be addressed at the Edinburgh EC summit, Mr Uffe Ellemann-Jensen, the Danish foreign minister signalled yesterday.

Addressing the Liberal Democrat conference in Harrogate, northern England, Mr Ellemann-Jensen made it clear that he hoped for a Yes vote in the French referendum on Sunday, but that the Maastricht agreement would have to be modified in some way - "Maastricht-plus" - before the Danish government would consider putting it to a second referendum for ratification.

A policy document from the Danish government is expected within the next few weeks, and the Danes hope that the summit in early December will provide the basis for an agreement perhaps through new declarations or protocols, so that they could hold a further referendum in the spring.

"There is a common interest in finding solutions. We're interested in finding a solution that does as little harm as possible to European integration," he said at a press conference after his speech.

Mr Ellemann-Jensen refused to be drawn on whether it



Modifying Maastricht: Uffe Ellemann-Jensen is seeking changes to the treaty on European monetary and political union

would be helpful for the British to press ahead with ratification before a second Danish referendum.

He made it clear, however, that there was no prospect of the Danish government trying to rush a referendum through to suit the convenience of other member states or to meet the original timetable of ratification of the treaty by the end

of this year. Opposition to the Maastricht treaty had come from across the political spectrum, he added.

Some on the left had not wanted to give up control of the Danes' generous social security arrangements, while others had been concerned that the role envisaged for the Western European Union

would cut across transatlantic co-operation, or not liked the idea of European citizenship.

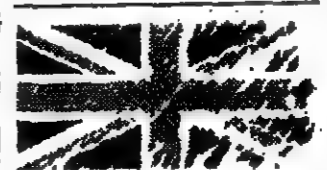
He said that the Danish result had shown how EC governments had been running ahead of public opinion, and that it had given them a chance to put that right before it was too late.

"The Community must become more accountable and

less bureaucratic through developing subsidiarity as a counter to centralising tendencies," he added.

"Unless the Community is able to convince the European populations that we mean what we say when we talk about subsidiarity, the European integration will be brought to an abrupt halt," he warned.

Britain in brief



Accountants 'tried to sell' BCCI papers

An accountant accused to the Serious Fraud Office's investigation into the Bank of Credit and Commerce International offered to sell highly confidential information from the inquiry, an Old Bailey jury was told.

Mr Mark Braley, 25, of Hayes, Middlesex, pleaded not guilty together with Mr Bernard Lynch, 28, an accountant of Forest Hill, south London, to conspiracy to pervert the course of justice.

Both men are accused of plotting between September and October last year to "remove, substitute, destroy, deface or copy documents or provide information relating to the investigation into BCCI," said Ali Akber, Suzana Fari and Christopher Williams.

an attempt to counteract a slump in revenues caused by the recession. The state railway's flagship is switching its emphasis to increasing revenues. The marketing campaign is believed to include a re-launch of the scheme offering free travel to shoppers collecting vouchers from Boots stores, and a revamp of the Silver Standard service for holders of full-fare standard class tickets.

Clark seeks carrier order

Mr David Clark, Labour party defence spokesman, urged the government to bring forward its order for a £180m helicopter carrier to prevent more ship-building job losses.

The Ministry of Defence has said a decision on who will build the aviation support ship, for which tenders are due on October 1, will not be made until next autumn. But Mr Clark, visiting Swan Hunter on the Tyne as part of a fact-finding tour around the UK's shipyards, said the government should bring forward the design work so teams with valuable skills are not broken up.

US company hired by BA

British Airways has contracted out its baggage security operations to Argonbright, an Atlanta-based company. Argonbright will take responsibility for the security of BA baggage worldwide under a contract that will run until 1995, when it will be reviewed.

Small scale sponsorship

Corporate sponsorship of soccer is being scaled down. John Waddington, the Leeds-based



games maker, announced its table-top Subbuteo soccer players will display on their shirts the logos of some of the major companies who sponsor real-life soccer teams, for no charge. Around 250,000 Subbuteo sets are sold across 50 countries each year, with about 15m little men involved.

Tayto expands

Tayto, Ulster's largest potato crisp maker, has announced the creation of 120 new jobs at its Co Armagh headquarters. The expansion is related to a £3.7m investment in machinery to help expand production in Britain and Europe.

Domination in auditing

The audit of quoted companies is being increasingly concentrated in the hands of a smaller number of accountancy firms, according to a new academic study.

The top eight firms audited 79 per cent of the market last year, compared with 64 per cent in 1987, an analysis by Ms Vivien Beattie and Ms Stella Fearley from the accounting and management science department of the University of Southampton shows.

Iberia in check-in deal

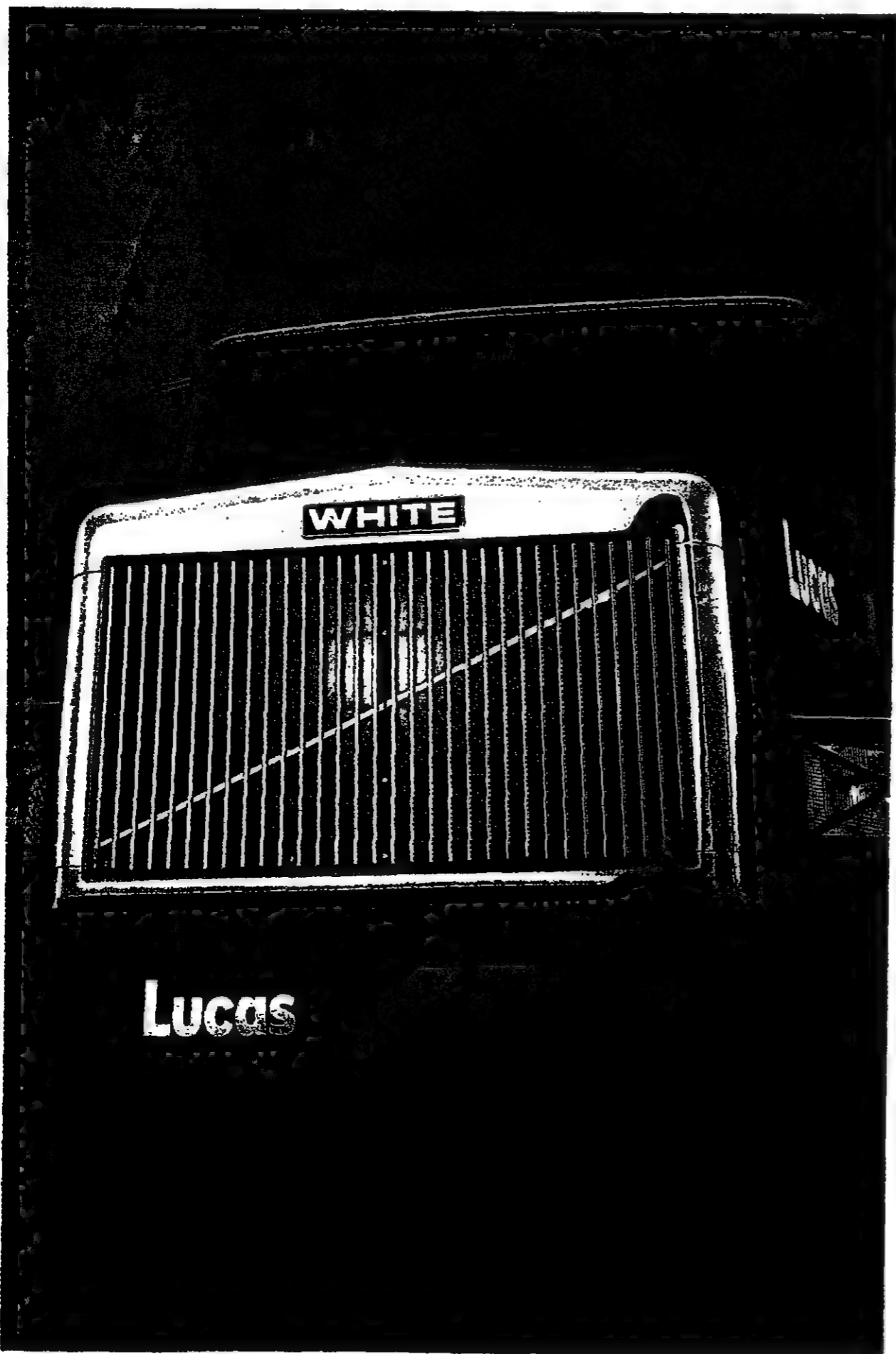
Iberia, the Spanish airline, has asked British Midland to check in its customers at Heathrow Airport and deal with their baggage.

The transfer is expected to mean redundancies for 52 permanent Iberia employees and 24 casual staff. Iberia also intends to centralise its UK reservations operation, handling all bookings from its Regent Street office.

InterCity plans revamp

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Households singled out for change in lifestyle

By Gary Head,
Marketing Correspondent

SINGLE people living alone will make up more than 30 per cent of all UK households by the end of the decade, with the biggest growth in single-male households.

By the year 2000, 40 per cent of all households will be single-person or single-parent, according to a study published yesterday by Mintel, the research agency.

The UK currently has 6m single-person households, 26 per cent of the total, compared with 12 per cent in 1981.

Increased life expectancy, higher divorce rates and people marrying later has put the notion of family life under pressure, Mintel says.

Average life expectancy from birth is now 73 years for men and 78.5 years for women. The number of divorces has increased from 158,000 in 1981 to 170,000 last year, peaking at about 175,000 a year in the mid-1980s. Every seventh marriage ends in divorce, Mintel says.

The mean age for first marriages has risen from 25.7 in 1983 to 27.2 last year for men, and from 23.5 to 25 for women during the same period.

These demographic shifts, Mintel says, will change the household profile so that by the end of the decade a quarter of purchasing decisions will be made by a person living alone.

The research also indicates that a wide variety of people make up single-person households. Their incomes varied from £168.83 a week in 1990 for an employed single person, to just over £60 a week for a retired person dependent on a state pension.

Single householders spend proportionately more on "comfort" foods - such as cakes - but also have a higher consumption of fresh fruit and vegetables than couples.

Mintel predicts 50 per cent of single person households will be under retirement age by the end of the decade - until the mid 1990s two-thirds of such householders were retired - and 44 per cent of those householders will be male.

Treasury to market test forecast model

By David Goodhart
and Peter Marsh

THE government's drive to contract out civil service operations to the private sector is closing in on core Treasury functions including recruitment and training and economic model building.

The Treasury has said it intends to start market testing - the testing ground for contracting-out - on the TSG (the Treasury Security Group), the internal audit, the library and several other areas.

But the greatest controversy surrounds economic model building which has an important input into economic forecasting. The Treasury said yesterday that outside companies would not have access to sensitive information and that the modelling function was "a technical matter".

But critics believe that model building does have implications for forecasting which are unavoidably political and market sensitive. Ms Elizabeth Symons, general secretary of the FDA, the top civil servants' union, said: "It is extraordinary that the govern-

ment has chosen to market test areas which are crucial to what should be politically neutral advice given by civil servants to government ministers".

The Treasury's computerised economic model contains hundreds of variables which stimulate how the economy works. It is a central tool in Treasury forecasts, published twice a year.

The job of updating the model is currently left to the Treasury's 80-strong team of economists. But partly because of mistakes in forecasting, for example failing to predict how the current recession would be, the Treasury has been looking at ways of contracting out more development work on the model.

It has already given contracts to update specific parts of its model to three outside academic teams. Similar groups would probably win the contract if the modelling function was contracted-out. Mr Alan Budd, Treasury chief economic adviser, who came from Barclays Bank, is also keen to develop links with private sector economists.



IN the wake of Maxwell: Arthur Andersen, administrators of the collapsed empire of the late tycoon, have handed the lease of the five-floor 88,000 sq ft former printing works in Southwark, south London, formerly occupied by Oxy, printers of legal stationery, back to land-

lords Rich Investment, writes Bronwen Maddox. Local children have raided the building, leaving the floor carpeted with returned - and uncashed - cheques. Among the 20 skip-loads of paper is a memo from Mr Robert Maxwell, which instructs: "In order to minimise telephone

costs and promote telephone discipline, I require that all telephone extensions in your operating companies be barred access to international calls, all non-local calls, directory enquiries, the speaking clock and weather, unless the need is formally approved and signed off by myself".

Domestic air travel hit by recession

By Paul Bells,
Aerospace Correspondent

THE recession is continuing to depress domestic air travel although international traffic is showing further signs of recovery.

The traffic figures released yesterday by BAA, the airports operator, showed a disappointing increase last month of just under 2 per cent in domestic traffic at its UK airports compared with August 1991.

"Although we are now starting to see the end of the Gulf war effect on our business, we are now seeing the full effect of the recession on our domestic business," a BAA official said.

A recovery, however, in international traffic turned last month into the busiest on record for BAA whose airports handled a total of 8.2m passengers. This was a 9 per cent increase on August last year.

Compared with the same month last year, Heathrow traffic increased by 9 per cent while traffic at Gatwick rose by 6 per cent and at the new Stansted airport complex by 28 per cent.

European scheduled traffic rose by 11 per cent and European charter traffic by 9 per cent at BAA airports last month. North Atlantic traffic also rose by 10 per cent.

BBC seeks abolition of ban on Northern Ireland speeches

By Raymond Snoddy

SIR Michael Checkland, director-general of the BBC, yesterday called for the abolition of the ban preventing the broadcasting of the speech of those deemed to represent extremist organisations in Northern Ireland.

The appeal from Sir Michael came following the controversy created by a BBC decision to sub-titling many of the comments made by former Ulster MP Mrs Bernadette McAliskey in a recorded programme on Ulster's troubles.

The BBC director-general said yesterday the broadcasting ban introduced in 1988 was a "totally unacceptable interference" with the editorial process.

Since 1988 both the BBC and the Independent Television Commission are prevented from broadcasting the voices of members of a list of republican and loyalist paramilitary groups as well as two legal political parties, Sinn Féin and Republican Sinn Féin.

Mr Peter Bottomley, the Conservative MP who is a former Northern Ireland minister, complained to the BBC that the organisation had been wrong to apply the rules to Mrs McAliskey.

Mr Bottomley said the former MP was not a member of any violent organisation and in the programme had clearly distinguished between understanding and supporting violence in Northern Ireland.

Sir Michael yesterday offered no unambiguous apology. He said: "This programme has demonstrated yet again the difficulties of applying the notice in practice where often very fine judgments must be made."

Singapore orders £100m turbines

By Chris Tigh

NEI PARSONS, part of the Rolls-Royce Industrial Power Group, has won a £100m order, against stiff international competition, to supply three 250MW steam turbine generators for the Pulau Seraya power station in Singapore.

The order, placed by the Public Utilities Board of Singapore, will mean recruitment next year of more than 100 shop-floor employees at Parsons' Newcastle upon Tyne plant, which has cut its workforce by half to 2,500 since the mid-1980s. A small number of design engineers will be recruited immediately.

The new contract, coupled

with a £70m Indian order won in May for two turbine generators, means security of employment for Parsons' existing workforce for several years. "There could however be some short-time working in the coming months until the new contracts move from the design phase to the factory floor."

The first of the three turbine generators for Singapore will be installed and fully operative by October 1995, with the other two units following at six monthly intervals. Parsons beat six European and Japanese companies to win the order, which also includes condensing and feed heating plant and associated equipment. "We have beaten the Japanese in

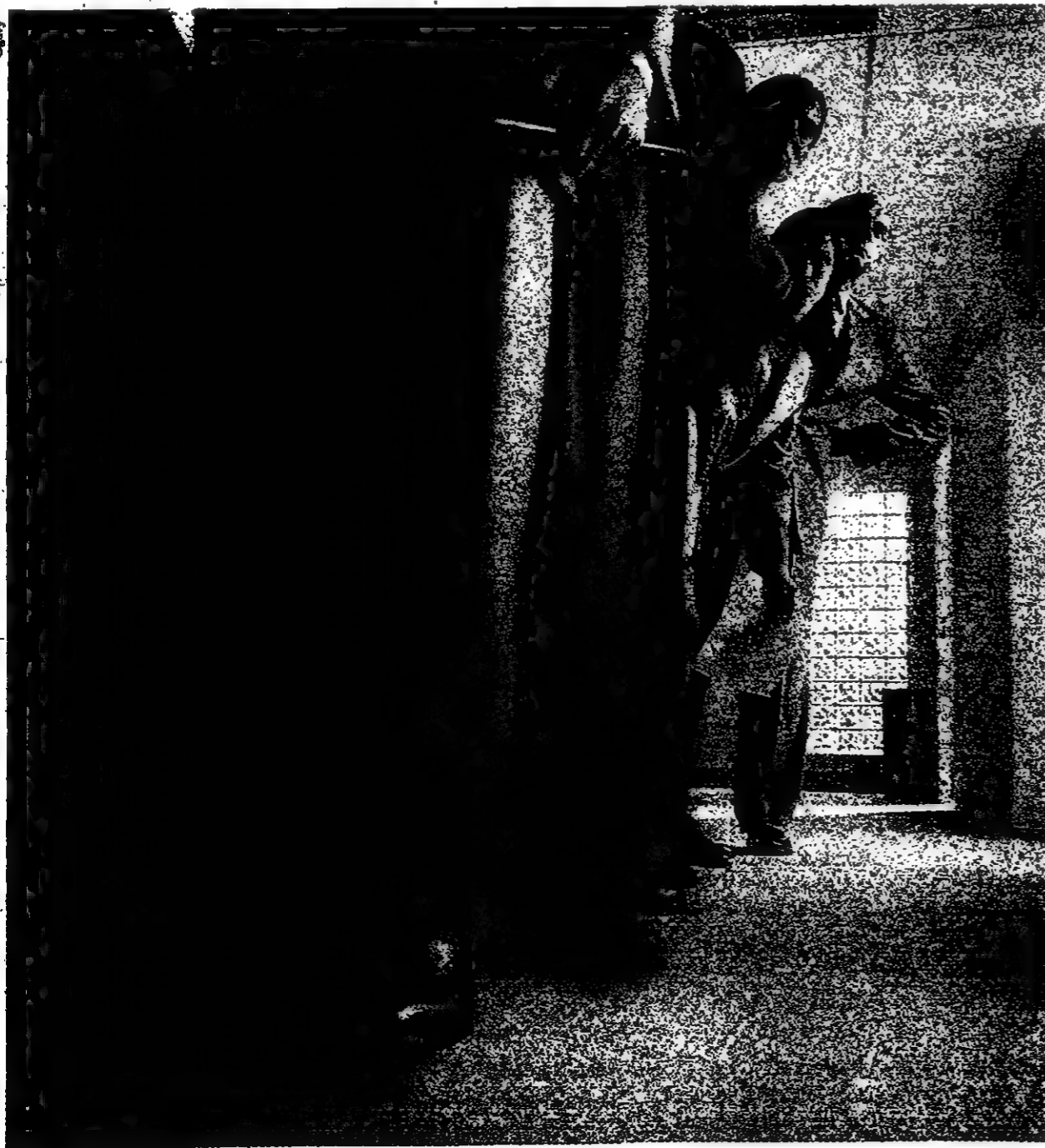
the Far East," the company said.

Parsons managing director Mr Trevor Murch said the order would provide "very valuable work" for the company. He said it could also strengthen the company's prospects, in fighting for more orders, by proving it was world competitive.

The clinching of two large orders in succession has enhanced prospects for Parsons. Welcoming the new contract convenor Mr Barney McGill said the company had undergone great changes in attitudes in recent years; shop floor employees now worked more flexibly and in exchange enjoyed the same

conditions as white collar staff. "In the last few years there has certainly been a very good pulling together," he said. "It's been rewarded all round."

Orders to engineering companies in the West Midlands, traditionally the heart of UK manufacturing, have slowed again after a brief surge in the spring, dissipating the belief that economic recovery has started. The Engineering Employers Federation, West Midlands, after a survey of 520 companies in the region, reported that, in the three months to August, 28 per cent of companies had seen orders decline, compared with 35 per cent in the three months to May.



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Tug of war in the rope industry

Andrew Baxter on stronger, lighter and more wear-resistant fibres

Rope-making must be one of the few industries where modern-day manufacturers can put a sample of their latest product development on a table and compare it with what their forbears were making 4,000 years ago.

At Bridon Marine in Charlton, south-east London, a piece of Egyptian rope from the days of the Pharaohs is exhibited proudly in John Yearley's office.

But the technical director of sister company Bridon Fibres gives pride of place to a new product with which he and Ian Rosen, director and general manager of Bridon Marine, are hoping to give the marine rope industry a firm shake.

Bridon Marine, part of Doncaster-based Bridon, the world's leading rope-making group, has just launched TQ12, a completely new polyolefin rope which is intended to answer the hard-pressed shipping industry's ever growing demands for stronger, lighter and more wear-resistant ropes.

It is perhaps because rope-making has been around for so long that its modern-day technical achievements rarely merit much attention. But the demands made on modern synthetic-fibre-based ropes would stretch the talents even of an early 20th century rope-maker, let alone an Egyptian craftsman using natural fibres.

Yet the industry retains strong links with its past. Bridon's factory illustrates the transformation in manufacturing over the past 30 years, with giant mechanical bobbins encircling each other in an industrial version of the maypole dance. When a fibre rope is completed it still requires craft skills to splice the loop at each end, a process which has long been mechanised in steel rope.

The rope itself has changed too, because of the possibilities offered by synthetic fibres. The 1960s brought rope plaited from eight

separate strands - twisted lengths of fibre - then some 10 years later came double-braid rope - basically a rope within a rope. More recently, Bridon has been making special oceanographic cables using Kevlar, the Du Pont composite material, as a low-stretch strength member to protect the electrical circuits.

Its latest product, the first to emerge from a reorganised technical centre at Charlton, has a unique 12-strand construction. The aim, says Yearley, is a much rounder, less lumpy rope than the eight-strand, cutting down wear but retaining the ability to make a single splice.

The main advantage of TQ12, however, is a 50 per cent increase in strength for the same size of rope. A mid-sized 7½-inch rope made of TQ12 will hold a 6-tonne load before breaking, compared with 4.1 tonnes for a standard eight-strand rope.

According to Yearley, about half the extra strength comes from the way the raw material polymer chips are extruded into fibres, and the proprietary combination of water inhibitors and additives included at this stage. The rest comes from the 12-strand design, the angle of lay, and the method of termination.

For Rosen, the new rope is a welcome addition to Bridon Marine's range when conditions are tough in the shipping industry. "It's a good thing to do now because customers will see the benefits," he says.

The rope is aimed at the marine market - moorings for ferries, cruise ships, cargo ships - which is important for Bridon as it balances the peaks and troughs caused by big contracts from the offshore industry. "We're going after business that is currently eight-strand," he says, and is looking first at the UK, Scandinavian and US markets. So who said British industry is on the ropes?



Test of the tower: The Greenwich distillery will be capable of producing 10m litres of grain spirit a year

Raising a glass to computerised gin

London's first new white spirit distillery for 84 years opens today. Philip Rawstone reports

When it comes to judging the quality of neutral white spirit - used in making premium gin and vodka - no technology can yet entirely replace a sensitive nostril.

So London's first new white spirit distillery for 84 years, which comes into production today, will have its output monitored by four men with highly-tuned noses as well as by such analytical aids as gas chromatography.

"We have tried to produce a scientific 'fingerprint' of the perfect distillation but without success," says John Reagan, distillery manager. "The nose, and particularly the customer's nose, is still the final arbiter of quality. It can sometimes pick up things which more scientific analysis does not detect."

The £10m joint venture at Greenwich between Invergordon Distillers, the Scotch whisky company, and Tunnel Refineries, a member of the Tate & Lyle group, will be capable of producing 10m litres of grain spirit a year.

Invergordon has been producing

white spirit at its distillery on the Cromarty Firth, north of Inverness, since 1978. Sales last year amounted to about 5 per cent of the company's £92.4m turnover.

"The location of the Greenwich distillery, close to the major markets in London and south-east England, and in continental Europe, should see us well placed to expand sales," says Chris Greig, Invergordon's managing director.

Britain's gin and vodka makers use about 55m litres of potable spirit a year. Total European Community demand amounts to more than 100m litres.

The Greenwich venture marries the skills of the two companies. Tunnel's expertise is in grain processing. It produces glucose syrups and starches for the food, soft drinks and brewing industries.

Invergordon has more than 30 years' experience in distilling. It is the fifth largest Scotch whisky producer, supplying several multiple retailers in the UK and continental Europe with own-label brands.

Though the basic distillation process has not changed for centuries,

the Greenwich distillery incorporates the most up-to-date technology to ensure low-cost quality production.

The distillery employs only 13 men. Two technicians per shift control the round-the-clock operation with the help of a Texas Instruments Programmable Logic Control system. The computerised system allows continuous monitoring and on-line control of the process and operating costs.

Liquid wheat starch is supplied from Tunnel's adjacent processing plant. It is cooked and converted into a syrup before transfer to six 180-tonne fermenters, each with an automatic cleaning-in-place system to maintain sterility.

A traditional yeast is added to the fermenters to convert the syrup into alcohol. The wash produced at the end of the process is fed into a six-column distillation plant into which Invergordon's own engineers have designed a number of heat recovery techniques to reduce energy consumption. Separate columns remove fusel oils, methyl alcohol and other impurities to produce a high-grade neutral spirit.

Technically Speaking

Keeping tabs on benchmarking

By Alan Cane



PROFITS and share price are simple measures of overall corporate competitiveness. Individual departments, however, find it more difficult to put up hard numbers to show how they compare with the opposition - especially if they are service organisations rather than profit centres.

These days, data centres and management information systems departments have urgent need of a reliable benchmarking technique. They are under attack from senior management, anxious to get better value for the money spent on information technology.

Installed computer power is rising by an average of 40 per cent a year in large data centres, yet there is heavy pressure on IT budgets and an increasing tendency to look at the possibility of "outsourcing" - turning over the company's entire data processing operations to a computing services company for a fee against an agreed level of service.

With this background, it is easy to see why IT departments from large organisations are keen to take part in projects such as the "Impact" programme, initiated by the National Computing Centre and now managed by consultants Peat Marwick. Impact is sponsoring a number of studies designed to measure the effectiveness of IT investment.

As one of the participants remarked: "It helps to give us an idea of where we are in the spectrum."

It seems likely that most companies could make substantial reductions in their data centre costs. Compas, a Scandinavian company which has developed a technique for measuring the efficiency of data centres, reckons that savings of between 5 per cent and 40 per cent can be immediately identified for most IT operations.

Compas's data are particularly interesting because the company now has records for many of the largest UK businesses stretching back to 1987. Its method is to measure some 800 variables in data centre performance. It is then able

to combine them into an overall picture, not only of the efficiency of the centre but also of how it compares with competing organisations.

Compas has followed a fixed group of UK companies since 1987. Its results suggest that although total IT costs for the group rose by 14 per cent annually, overall unit costs fell 31 per cent each year. In other words, although the members of the groups were increasing their investment in IT, they were getting better value for money.

Now, as managing director Theo Sahlsberg is happy to admit, there is no magic in the Compas approach or that of its competitors, Real Decisions Corporation or Nolan Norton.

The benefits come from the detailed way in which the data are collected, which forces companies to think hard about every aspect of the data processing department.

The level of measurement involved seems to be new to many companies. IT spending decisions are too often taken on inadequate data.

Outsourcing, for example, may for all its fashionable produce a more expensive solution. One company which quoted a minimum \$13.4m (£6.8m) a year for a seven-year facilities management deal found that by following Compas's recommendations it saved more than \$45m in four years. Over the entire period, concentration on internal efficiencies resulted in lower costs than outsourcing.

For maximum benefits, however, data centre costs have to be measured regularly. In the five years Compas has been investigating UK companies it has seen the use of its technique change from a one-off "health-check" to a continuous method for monitoring performance.

Ford of Europe, for example, has carried out a study each year and acted on the results. Production capacity has been doubled with lower staff levels and without increasing overall costs.

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LEGAL NOTICES

DEVON

The FT proposes to publish this survey on October 14 1992, from its print centres in Tokyo, New York, Frankfurt, Paris and London. It will be read by senior businessmen and government officials in 160 countries worldwide. It will also be of particular interest to the 130,000 directors and managers in the UK who read the weekday FT.

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Data source: BMC Business Survey 1990

FT SURVEYS

UNITED STATES BANKRUPTCY COURT
DISTRICT OF NEW JERSEY
IN THE MATTER OF:
AMERICAN BIOMATERIALS CORP.
A Virginia Corporation
Debtor

Chapter 11 Case No. 92-0726
NOTICE TO STOCKHOLDERS OF AMERICAN BIOMATERIALS CORP. OF LAST DAY FOR FILING PROOF OF INTERESTS AND TENDERING STOCK CERTIFICATES

TO ALL STOCKHOLDERS OF AMERICAN BIOMATERIALS CORP.

PLEASE TAKE NOTICE, that on December 4 1992, American Biomaterials Corp. (the "Debtor") filed a voluntary petition for relief under Chapter 11 of Title 11 of the United States Code, in the United States Bankruptcy Court, District of New Jersey ("Bankruptcy Court").

PLEASE TAKE FURTHER NOTICE, that the Bankruptcy Court has entered an Order dated September 30, 1992 confirming Debtor's Assumed Plan of Reorganization ("Plan of Reorganization").

PLEASE TAKE FURTHER NOTICE, that the Bankruptcy Court has entered an Order dated August 3, 1992 which sets October 30, 1992 as the last day ("Bar Date") for stockholders to file Proof of Interest and tender original stock certificates.

PLEASE TAKE FURTHER NOTICE, that stockholders who fail to file Proof of Interest and tender stock certificates by the Bar Date shall be forever barred from asserting such equity interest against the Debtor, and shall not, with respect to any such equity interest, be entitled to be treated as the holder of an Allowed Claim 9 interest under the Plan of Reorganization.

PLEASE TAKE FURTHER NOTICE, that all inquiries and requests for information may be directed to:

Jonathan, Moore, Puckett & Spitzer
300 Alexander Park, CN 5226,
Princeton, New Jersey 08540-5226,
Attn: A.J.C. Chiles President,
Am. A.B.C. Chiles President.

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PLEASE TAKE FURTHER NOTICE, that all inquiries and requests for information may be directed to:

Jonathan, Moore, Puckett & Spitzer
300 Alexander Park, CN 5226,
Princeton, New Jersey 08540-5226,
Attn: Andrew S. Williams, Esq.,
(609) 432-0808.

Dated August 3, 1992.

BY ORDER OF THE UNITED STATES BANKRUPTCY COURT:
RONALD W. JAMESON, JR. JUDGE
UNITED STATES BANKRUPTCY COURT
JAMESON, MOORE, PUCKETT & SPITZER
Attorneys for American Biomaterials Corp.
300 Alexander Park, CN 5226, Princeton, New Jersey 08540-5226
Attn: Andrew S. Williams, Esq.

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KYUSHU

TUESDAY SEPTEMBER 15 1992



As growth slows in most of Japan, Kyushu is still experiencing patchy progress. While the pessimists argue that national trends eventually filter down to the island, others hope it will escape unbruised. Robert Thomson reports

Defying the downturn?

WHEN a local banker in Kyushu, the southernmost of Japan's four main islands, explained the region's ability to avoid the worst of the economic downturn which is afflicting the country, he alluded to a chapter in history. In the late 13th century, Japan was under threat of invasion from the Mongol army. Initial landings were made and battles were fought in Kyushu. Defeat seemed imminent in the face of the all-conquering Mongols until a sudden storm, or *kamikaze* (divine wind), wreaked havoc among their vessels, forcing a retreat.

Kyushu now hopes that a divine wind of a different kind will enable the island to avoid the damage which has been seen in Tokyo and Osaka, Japan's two largest cities. There is a general sense that the emergency economic package of ¥10,000bn, announced in late August by Mr Kiichi Miyasawa, the prime minister, has come in time to make sure that Kyushu will maintain its momentum.

The island, which is about the size of the Netherlands, has a long list of public works projects, such as 'Bullet' train lines and motorways, which will provide an important source of stimulation for an area that accounts for about 10 per cent of the national economy. The investment average

for Japan is 80 per cent private to 20 per cent public, while the ratio in Kyushu is 70:30.

However, the island's prefectural governments have attempted to lessen their reliance on Tokyo money and have been highly successful in luring in new car and electronics factories over the past few years.

Mr Hechiji Okuda, the governor of Fukuoka prefecture in the north, says that capital spending has continued to expand in the region, while contracting elsewhere. Investment in manufacturing industry rose by 39.9 per cent in 1990 and by 6.9 per cent last year, after a rise of 31 per cent in 1988.

"Compared with the rest of Japan, we are in a good condition. There has been a decline in land prices in Fukuoka, but no abrupt fall. The economic package will have a good psychological impact here, but we are still catching up. Our economy took off only 10 years ago and we have room for growth," Mr Okuda said.

Fukuoka city is fast becoming the Tokyo of Kyushu, sucking in investment and attracting young workers from rural areas. It has an urban dynamism absent from most of the island, with interesting indulgences in post-modern architecture. Its stance is that of an Asian regional centre rather than simply the biggest city on

the island.

The bright lights and rapid expansion have also attracted speculative property investment, leaving the city with around 3,000 empty apartments and several troubled developers.

However, the locals argue that Fukuoka's financial "bubble" was never pumped up to the daunting proportions of that of Tokyo and say that the banks which are now suffering most are the larger Tokyo-based banks.

Lending patterns in Kyushu provide evidence of the difficulties facing Tokyo and Osaka-based banks in Kyushu. It was presumed that the deregulation of Japan's financial system would allow the bigger banks to grab regional market share, but lending by these banks in Kyushu for the first half was about 3 per cent lower than a year earlier, while that of locally-based banks was 8 per cent higher.

Mr Tatsuta Ooto, president of Nishi-Nippon Bank, insists the region's own banks are very strong. Fukuoka-based banks have certainly profited from the city's growth. Nevertheless, there are concerns that other Kyushu banks were overly ambitious during the easy money era of the late 1980s and that mergers and takeovers will be inevitable.

And less optimistic forecasts argue that trends take their

time to trickle down to Kyushu and that the pain of recession will be felt before the year is out.

But Kyushu has benefited from the rapid expansion of manufacturing during the late 1980s, as has been reflected in the capital spending surge. Toyota Motor is building a new car plant on the island and Nissan has an assembly facility, while the two makers' suppliers are establishing local bases.

NEC has a liquid crystal display panel factory in Kyushu and most semiconductor makers have established a presence on the "silicon island", which offered cheap land and a supply of workers when companies were worried about labour shortages.

The investment has quickened the transition of the Kyushu economy, heavily reliant on coal and agricultural output during the 1950s and 1960s. Coal production fell from 26m tonnes in 1960 to 8.6m tonnes in 1988, while integrated circuit output quadrupled between 1980 and 1985 and almost doubled between 1985 and 1990.

And while other countries' shipbuilding industries have collapsed, Kyushu's industry, highlighted by the huge Mitsubishi Heavy Industries facility in Nagasaki harbour, is now prospering from an upturn in orders and from a lack of inter-

national competition. Having weathered the South Korean challenge, Japanese builders are now expected to take more than 50 per cent of all orders over the next decade.

The increase in manufacturing capacity, combined with the slowdown in the domestic economy, has prompted a more embarrassing change. Kyushu once boasted that it was Japan's import base, playing an important role in reducing the politically-sensitive trade surplus. But, confronted by weak domestic demand and the need to justify recently completed plants, manufacturers are sharply increasing their exports.

Exports rose 10.2 per cent in the first half of this year, while imports fell by 4.3 per cent. Local trade officials said the increase was a natural result of Kyushu's proximity to thriving Asian economies, yet exports to Asia fell 3.5 per cent during the first half and those to the EC rose 25.9 per cent. Most significantly, car exports rose 23.4 per cent, a not surprising outcome given the 8.5 per cent fall in domestic car sales during the second quarter.

In the longer-term, Asia will be the focus of Kyushu's attention, a point made clear by Mr Okuda, who points out that Fukuoka is closer to Seoul and the Chinese cities of Shanghai and Dalian than it is to Tokyo.

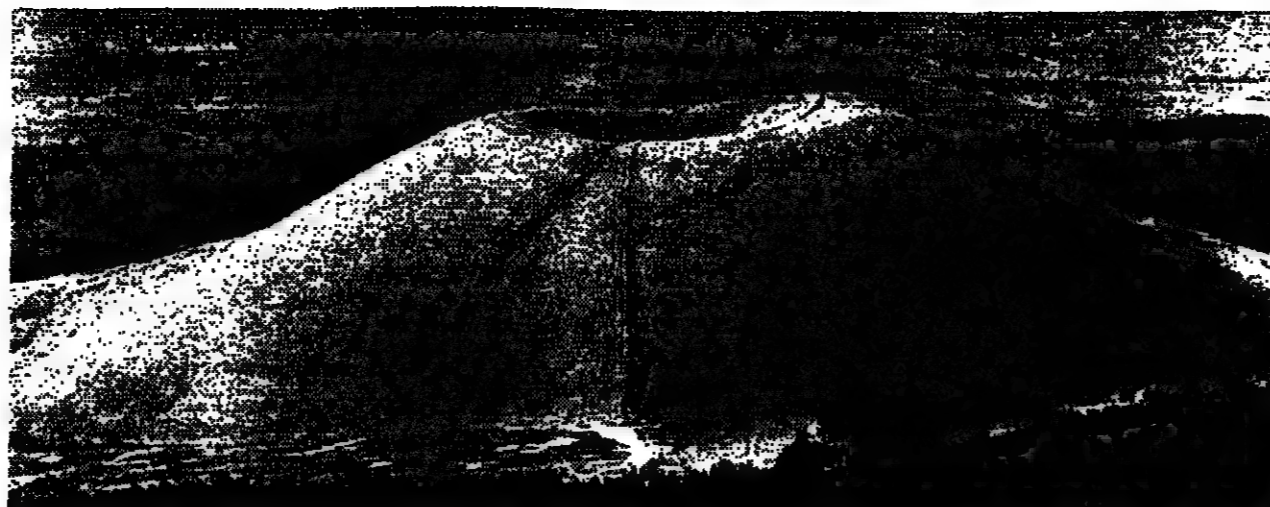
This week, Fukuoka is hosting an Asian film festival, with works from Vietnam, China and, appropriately enough, Mongolia, while other prefectural governments are gradually expanding their network of offices in the region.

In Nagasaki, the government is trying to cultivate an image beyond that of a memorial to atomic bomb victims. The governor, Mr Isamu Takada, has reached deeper into the city's history, highlighting its traditional role as Japan's gateway to western and Chinese culture. "We see ourselves as a good base for the software industry. We must find more jobs for our young people because they are still being lured to Tokyo," Mr Takada says.

But he is not expecting much help from the central government, seen by the prefectures as a hindrance to their grand ambitions - ambitions which are yet to feel the effects of a recession.

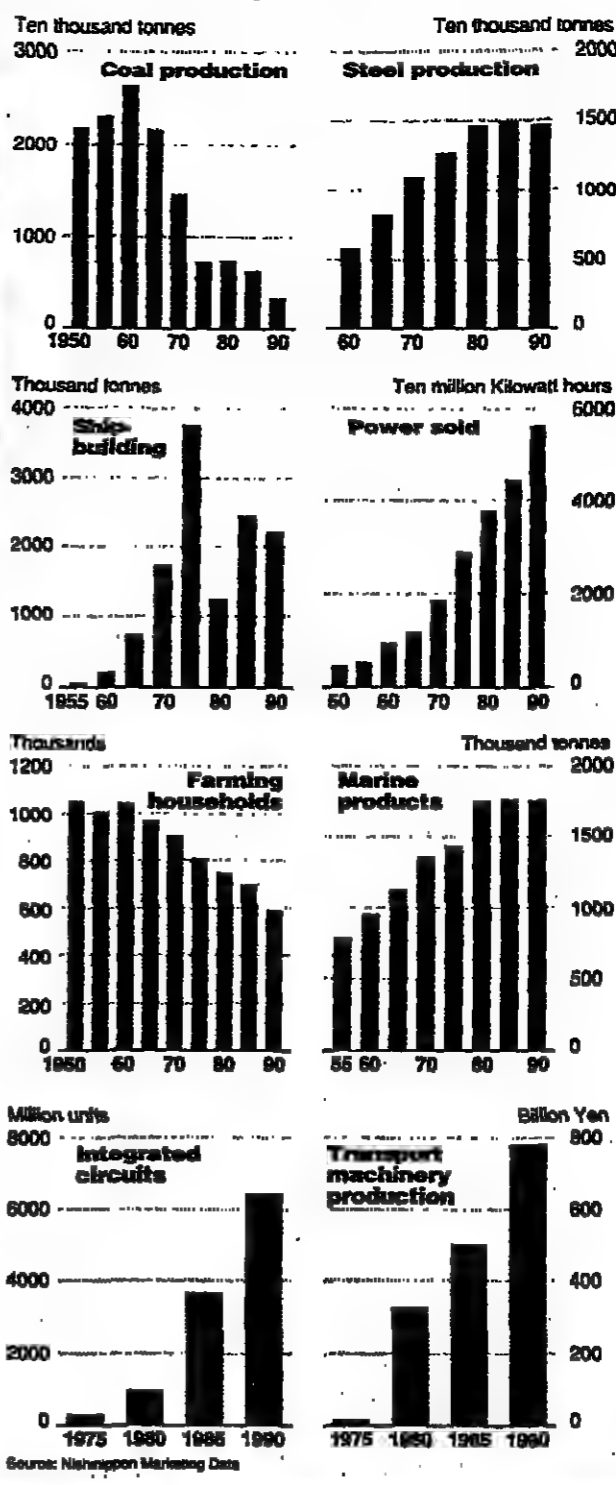
"There has been a lot of talk about decentralising government functions, but we have received nothing in the past decade and we are unlikely to get anything in the future. It's too convenient for the bureaucrats and politicians to keep everything bottled up in Tokyo."

Pictures in this survey by Glyn Gwin



Dormant volcano, Mount Komezuka: with an economy still growing, can Kyushu fend off the decline affecting the rest of the country?

Kyushu industry



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KYUSHU 2

Robert Thomson finds the city banks licking their wounds

Locals weather the storm

IF THE international banking community had reservations about the rapid spread of Japanese commercial banks' influence in the 1980s, Japan's smaller regional banks had real reason for concern about the tougher domestic competition that would flow from financial liberalisation.

In the late 1980s, the regional banks could see that the commercial, or city banks as they are known in Japan, were courting their customers, bolstering networks outside Tokyo and preparing to take advantage of interest rate deregulation, due to be completed by 1994.

But, in Kyushu, while the Tokyo and Osaka-based city banks are counting the costs of expansion during late 1980s and still calculating the problem loans arising from their exposure to the troubled property market, the regional banks are now more relaxed. Instead of taking Kyushu banks' customers, the city banks are selling loans to the regional banks in an attempt

to trim assets. And Bank of Japan research shows that while city bank lending in Kyushu fell by 4.2 per cent in June and 3.9 per cent in July, compared to a year earlier, local bank lending rose by 5.4 per cent and 6.9 per cent during the same two months.

Mr. Tetsuo Goto, president of the Nishi-Nippon Bank based in Fukuoka, smiled as he contemplated the waning potential threat from the big city heavyweights: "We have no problems with the city banks here. There are too many banks in Fukuoka, but it is the city banks which are weaker."

Fukuoka prefecture has Japan's largest number of regional bank branches - 442, almost 50 per cent more than the next largest collection in Shizuoka prefecture, near Tokyo, and double the number in most prefectures. As a result, the area's smaller banks are ripe for the mergers that the Ministry of Finance presumes will come with liberalisation, but city banks, too, have

faced tougher than usual competition.

With Fukuoka city rapidly becoming the Tokyo of Kyushu, smaller banks in other areas on the island have attempted to expand their operations in the city, adding to the forest of signs in the already overcrowded banking district.

Like the city banks, some of those regional institutions have found that the ebbing financial tide of the early 1990s has exposed unwise expansion made during the 1980s. The newcomers, large and small, were also willing to lend to local companies that had exhausted their credit with the established banks. One side-effect of the increased lending is the 3,000 vacant apartments in Fukuoka city built by property

	Bank lending	
	City banks	Regional banks
	% up on year earlier	% up on year earlier
1988	9.7	10.8
1989	2.6	6.7
1990	-1.6	5.6
May	-3.0	8.0
June	-4.2	5.4
July	-3.9	6.9

Source: Fédération Française des Sociétés d'Assurances

developers who, along with the banks, got the market wrong. Mr Goto insists, apartments aside, that Fukuoka has avoided the extreme excesses seen in Tokyo and Osaka. He admits that some companies have been forced to restructure their loans but says that, for Nishi-Nippon, non-performing loans are not a particularly heavy burden.

"We have always looked at the quality of our assets. If we are evaluating a troubled company, we will look at the policies of the management and, for example, whether they have a good stock of land. If their long-term prospects are good, we will assist them," Mr Goto said.

The Nagasaki-based Eighteenth Bank also appears to

have weathered the 1980s successfully by concentrating on its local banking network. It has 125 branches, 110 of them in Nagasaki prefecture and another 10 in Fukuoka prefecture, and new branches are planned for the northern Kyushu area.

Mr Genji Nozaki, the bank's president, said that his institution had bought about "six or seven loans" from city banks that were trimming their assets, although he sensed that, in the longer-term, these banks would pose a threat to the regional banks' profits.

"Real liberalisation has yet to come. If interest rates are actually liberalised, we really can't say what will happen. It would certainly be more difficult for the smaller banks to compete," Mr Nozaki said.

"It is also true that the city banks are not as strong as they were three years ago," he added.

Both Mr Nozaki and Mr Goto at Nishi-Nippon are former finance ministry officials, a common background for regional bank heads.

Both are determined to keep their banks above the 8 per cent capital-to-assets ratio that was established through the Bank for International Settlements.

The BIS ratio at Nishi-Nippon was 8.18 at the end of March, compared to 8.66 a year earlier, while Eighteenth Bank was at around 9 per cent in March 1991 and 8.65 per cent last March.

Mr Nozaki said that the best way to safeguard the bank's financial standing was to concentrate on the local community.

With this in mind, it launched a corporate identity campaign with a three-pronged slogan - banking, together with the community, in the interests of the customer, and

with sincerity. The slogan is somewhat snappier in the original Japanese.

The Kyushu banking community need only turn to the Fukuoka stock exchange for a lesson on how large financial institutions can quickly consume the local competition. Mr Fubito Shimomura, president of the exchange, lamented that in 1949, there were 24 local brokers, of which only one remains.

"It's really a bit unfortunate. The brokers here these days are Nomura Securities and Yamachi Securities and so on. The others no longer exist," Mr Shimomura said.

He said Fukuoka was really "just one floor" in the one Japanese market, with 25 of 252 stocks listed only on his exchange and the others based in Tokyo or elsewhere.

About 62 Kyushu companies are interested in listing, but the stock market weakness over the past two years has forced companies waiting for better times.

PROFILE: TOTO

Washlet creator tries new tricks

THE CLAY soil of Kyushu has for centuries yielded the raw material used to produce ceramics and to this day it is turned by the craftsmen of Arita into exquisitely fashioned bowls and ornaments.

More recently, Kyushu's status as a "silicon island" derived in part from the availability of the ceramics which went into semiconductors.

But in between high art and high-tech, for the past 76 years one Kyushu company has been supplying the nation with a more prosaic form of ceramic and its products are used almost every day by almost every Japanese.

Toto, based in Kita-Kyushu, is the country's biggest manufacturer of toilets, with annual sales of ¥417.5bn and a domestic market share of more than 80 per cent. It was the creator 12 years ago of the Washlet, a microcomputer-controlled combination toilet-bidet which has been featured on numerous western television shows.

Tied closely to the domestic economy, its profits dipped last year, amid the downturn in construction activity, to ¥30.3bn before tax, down 13 per cent. But it has been expanding in Asia, Europe and this year the US, and analysts argue that its dominant position at home means it can set the industry's pricing terms and will be well placed for a

revival in housing starts.

Japanese take their bathrooms and kitchens (units for which the company also supplies) seriously. And Toto takes its products seriously - the executive washroom next to the office of Mr Shigeru Ezoe, who took over as president in June, is ripped out every year to accommodate its latest models.

He says that Japan's ageing society, putting a greater emphasis on living standards, is prompting new demand. Business comes two thirds from new homes and the rest from renovations. "In the US the reverse is true, and we foresee the same happening here," he adds.

Toto has just opened a ¥17bn factory near its head office which came fully on stream in June. It employs just 380 of Toto's nearly 11,000 staff. A fleet of unmanned vehicles whisks units from the end of the production line, while robots methodically lift and lower toilet seats while they

put the final touches in place.

In spite of the less than glamorous nature of the work, Mr Ezoe says the company did not suffer from Japan's labour shortage of the early 1990s, "thanks to our Kyushu base" where good quality labour has remained in ready supply.

While Toto has plants elsewhere in Japan, the island remains its main production centre. Abroad, meanwhile, it has stakes in sanitary ware producers in South Korea, Thailand, Taiwan and Indonesia as well as in Allia of France and Keramag in Germany.

Overseas sales account for over 10 per cent of total revenues, of which direct exports form barely 2 per cent. After opening a California sales outlet, US manufacturing will begin this autumn from a plant in Atlanta.

American sanitary ware makers may balk at the arrival of a competitor from a country where the sector's three biggest producers

together account for more than 90 per cent of the market. But Mr Ezoe stresses that Toto does not intend to take US makers of conventional toilets head-on: rather, the Atlanta facility, which will initially employ just 65, will make only those using water-saving flushing systems.

Toto has some 1,200 employees engaged in research and development and is seeking to expand into related areas. "Our business is to do with water," says Mr Ezoe, who rose through the company's technological division and now has several dozen people working in purely biological research. The number of technical staff overall has trebled in the last seven years.

This has enabled it to put into production, for example, ceramic parts for optical fibre connectors. But the product for which it is best known is not being neglected.

Next year's low-noise Washlet will have an ozone-friendly deodorant dispenser built in, while the company has been working with Omron and NTT, the electronics and telecommunications groups, to produce a "health management toilet system" which measures glucose and protein levels and can take the user's pulse and blood pressure too.

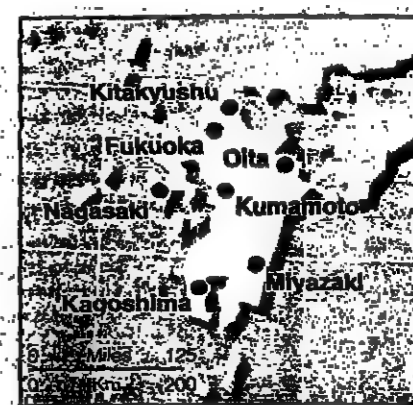
Gordon Cramb

Key statistics

	Japan	Kyushu	Kyushu as % of Japanese total
POPULATION			
1990	123,612,000	14,516,000	11.7
Projected to 2005	124,247,000	15,451,000	11.5
EMPLOYMENT ('000s)			
Agriculture, fishing & forestry	4,983 (7.9)	815 (13.5)	18.8
Manufacturing, industry	20,516 (37.1)	1,126 (18.6)	5.5
Finance, retail	30,498 (55.0)	4,107 (27.5)	13.5
GDP (billion yen)			
1980/81	247,511	22,919	9.3
1985/86	327,445	28,705	8.8
1989/90	419,422	35,530	8.5
UNEMPLOYMENT % RATES			
1975	1980	1985	1990
Japan	2.3	3.4	3.0
Kyushu	3.3	4.2	3.7

Figures in brackets are % of total

Sources: Japan local government centre, London



Rural villages now grow their own products

Old habits dying fast

THIRTY years ago, when the government was encouraging the increase in rice crops, the farmers of Oyama - a small town in northern Oita prefecture - sacrificed their rice paddies for chestnut and plum fields. As a result, and under the strong leadership of the village mayor, Oyama transformed itself from a poor rural village to one of the richest farming communities in the country.

Oyama's plum and chestnut campaign was initially received with scepticism, even among the farmers in the town. "People thought we were crazy, telling people to stop growing rice," says Mr Kimi Yahata, present mayor of Oyama.

But after Mr Yahata's father, then village mayor, explaining to the farmers that Oyama - surrounded by mountains with little flat land - was not a place for raising cattle or for rice farming, those who initially opposed gave in and Oyama started cultivating fruit, which grows easily in mountainous areas and would suit Oyama's climate.

The Japanese government's "double income campaign", encouraging people to work harder to increase their income, also predicted a change in the eating habits of the Japanese. "If people earn more money, it doesn't mean that they'll eat more rice. Instead they'll try to eat an assortment of foods in small portions," says Mr Yahata.

Thus, a small impoverished village grew into a town producing 130 different fruits and smaller scale produce, such as mushrooms, cress and herbs.

Mr Yahata also points out that the government is not aware of the speed at which the eating habits of the Japanese are changing. He says small-lot production of high-quality goods represents Oyama's means of survival, especially when overseas pressure to increase imports of agricultural goods is rising.

Oyama's strategy also changed the image of farming and curbed the outflow of the younger generation into cities. Mr Seiji Yano, a 53-year-old farmer from Oyama who owns plum fields and grows mushrooms, was 23 when the village began its restructuring. "I wanted to go to university and I was keen on leaving Oyama when I had the chance, but the new campaign to change Oyama gave me an incentive to stay," he says.

Mr Yano says going against the trend of mass production was what led to Oyama's success. "Just following the government's agricultural policy is not good enough."

Oyama's enthusiasm spread throughout Oita with the "one village one product" campaign, launched by Mr Morihiko Hiramatsu, the governor of Oita, in 1979. Oyama's effort to establish an identity among its populace and inspire local pride through the production of special products coincided with Mr Hiramatsu's aim to rescue Oita's ailing economy and faltering self-image.

Mr Hiramatsu urged local communities to develop at least one original product which they could call their own. "Only something truly local can be global and I didn't want copies of what people

could buy in Tokyo," he says. His efforts resulted in the Oita shiitake mushroom, which holds 30 per cent of the country's market, and Hime-shima prawns, which, at ¥8,000 per batch, raise an annual ¥1.9bn for the prawn farmers of Hime-shima island. Oita mandarins oranges sell at ¥300 to ¥600 per 100g. This compares favourably to car production, since a 1.5-tonne car, selling at ¥2m will mean sales of only ¥200 per 100 grams.

No subsidies are provided for the production of the local specialties. However, the prefectural government provides aid for research and development of the products, as Mr Hiramatsu believes that truly beneficial products can not emerge through government subsidies.

While the success of the "one village, one product" has prompted other regions in Japan and overseas to follow Oita's example, Mr Hiramatsu admits that the hardest challenge Oita faces is the departure of the younger generation to larger cities.

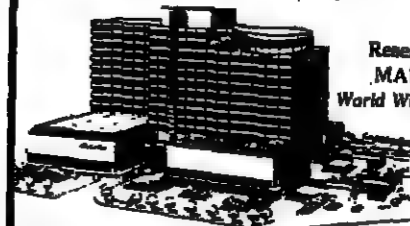
"It's a problem that any small region in any country in the world faces," says Mr Hiramatsu. "For that, Oita needs to be a base for information and culture."

Even Oyama is finding it harder to prevent depopulation. Mr Yano of Oyama says that while the town has managed to build a reputation for the high quality agricultural goods, life is still hard and the short-sightedness of the government's agricultural policy is discouraging Japan's farmers. Although Mr Yano's son has returned to the farm after graduating from university in Tokyo, "it's really hard to tell him to work with high hopes for the future," says Mr Yano.

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KYUSHU 3

Many see overseas investment as an advantage for the future

The island looks abroad

GREENFIELD sites in Kyushu are just that. In the lush and rolling terrain towards the island's northern tip, surrounded by forests and rice fields, the arrival next spring of Toyota is signalled by the vast pastel-coloured corrugated barns which will house its plant.

For the country's biggest car maker, the facility will be its first domestic production centre outside its Aichi home. When fully on stream it is intended to produce 200,000 cars a year, assuming a revival in the country's depressed automotive market.

This, with a near-doubling of capacity at Nissan nearby, will bring Kyushu's annual car output to at least 700,000 units out of a total for Japan of 4.5m.

Although local demand was considered - Toyota is building a similar facility in Hokkaido, northern Japan - the company thinks that at best 10 per cent of the vehicles built in Kyushu will stay on the island. A more important factor was the availability of land.

The abundance and relative cheapness of industrial real estate in Kyushu, in addition to a well-trained workforce, have helped draw manufacturers there in the face of what Mr Jippei Mutoh, a director of the nascent Toyota operation there, acknowledges is a below-par transport infrastructure.

Expressways and rail links on the island are being extended, and last month's record central government package of public works spending may yield funds for a further upgrading of ports.

Still, local business leaders at times show agitation that budgets disbursed in Tokyo do not take enough account of the region's needs. "We are saying a share should be fairly given to local areas as well," says Mr Ryoji Tanaka, president of Bank of Kyushu, Kyushu's biggest home-grown bank. "Whether it works like that is questionable."

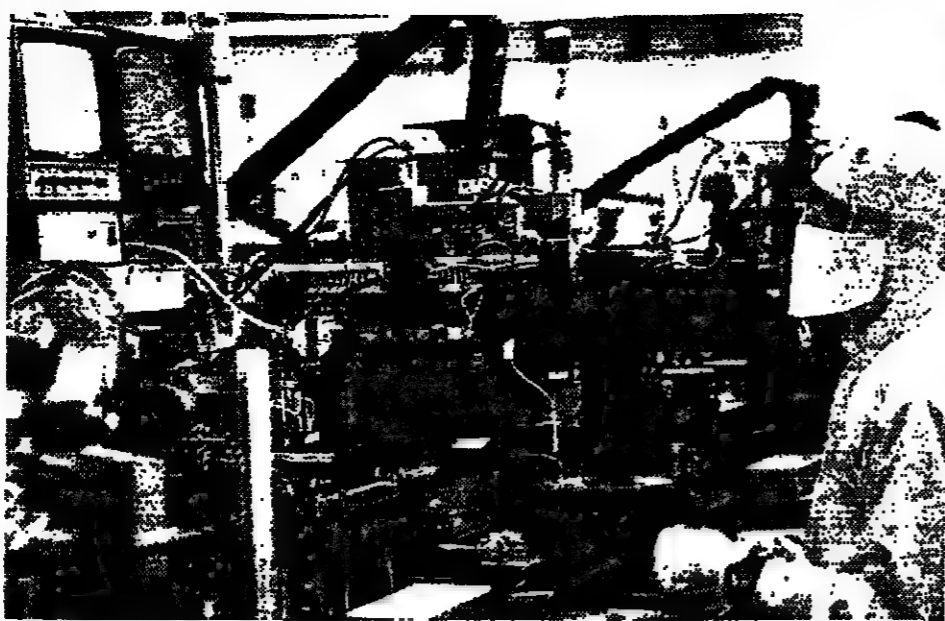
The economic downturn in Japan has now begun to hit Kyushu, lagging about six months behind the rest of the country and not yet so severely affected by it.

Access to investment capital on the island has not altered markedly, although the projects for which funds are intended are likely to receive closer scrutiny.

"There is no credit crunch in Kyushu," Mr Tanaka maintains. His loan book will grow some 3 to 4 per cent this year - sharply down from the usual 10 per cent, but most of the difference reflects curtailed lending through its Tokyo and Osaka branches.

Prefectural governments meanwhile have become all the more anxious to secure new investment commitments. Such keenness, however, has long been the case for those regions away from the industrial north of the island, that seek creative ways to target the limited funds and incentives they have on offer.

Kumamoto in western Kyushu, for example, has a "foreigners first" policy under



The Texas Instruments plant at Beppu: its nearly 1,600 employees include 100 working in R&D

which bigger grants, of up to ¥50m, are available for companies from overseas, whereas a Japanese group would get only ¥40m. Better soft loans are offered - a maximum of ¥400m compared with ¥300m and carrying interest rates at a one percentage point discount to those available to domestic investors.

Two foreign companies are sifting themselves there this year - the Dutch ASM group and Teradyne of the US, which will both be producing semiconductor manufacturing

Chip-making drew foreign companies to Kyushu as early as two decades ago

equipment. Kumamoto has the world's largest integrated circuit (IC) plant, owned by NEC.

Like other local administrations, Kumamoto is benefiting from the arrival of Nissan and Toyota through the automotive component suppliers which are springing up on the island as a result. A Kyushu-made Toyota will, however, have only about 30 per cent local content, and the company will have some 30 suppliers from which to draw instead of the 180 in Aichi.

The "car island" which Kyushu is beginning to call itself partially eclipses its earlier status as "silicon island". It produces more than a third of ICs made in Japan, approaching a tenth of the world output, and chip-making drew foreign companies to Kyushu as early as two decades ago.

Texas Instruments (TI) opened its plant on the east of the island in 1973, one of a handful it now has in Japan. Its nearly 1,600 employees include 100 working in research and development, unlike TI's Japanese rivals which generally confine R&D activities to their head offices.

The practice helps the US company attract skilled staff. Like other manufacturers operating in Kyushu, it seeks to win back to the island those who grew up and trained there

but went on to metropolitan careers.

Prefectural governments make much of this "U-turn" campaign, which they co-ordinate. But some parts of Kyushu still lose 80 per cent of local graduates to the big cities, a figure which has not changed since the drive began in the early to mid-1980s.

Although the country's economic downturn this year has blunted the previously acute labour shortage, key staff in some areas remain hard to find. Mr Kichiro Fukumoto, TI's personnel director for Kyushu, argues that sifting R&D at the plant gives something for qualified electronics workers to come back to.

"Getting the U-turn people is a problem for other companies - if they have skills acquired in Tokyo, they can't bring them back," he says.

Among other blandishments, TI offers its staff what it believes to be the shortest working week in Japan - just three 12-hour days. The plant runs six days a week, with Sunday overtime as needed. But as an indicator of the decline in the world semiconductor market as well as in overall Japanese industrial activity, few Sundays have been worked this year. "Last year it was nearly every week," says Mr Fukumoto.

TI faces a further difficulty, unforeseen at the time it set up in Oita prefecture. As the industry has moved in recent years from standard chips to customised products, its physical distance from its customers has made itself more felt. Online computer links provide only a partial solution.

Others see the island's geographical location as an advantage for the future. Mr Tatsuo Kawai, chairman of the Kyushu Economic Federation, has his eye on the adjacent regions of China, to which Hong Kong capital has not yet rushed as it has in the south.

The large industrial groups in South Korea, which lies between southern Japan and north China - and which last month established diplomatic relations with Beijing - would also be likely to commit

increasing funds there.

According to Mr Kawai, the most desirable outcome would be a tripartite relationship, "a kind of job-sharing with Korea" which would give both other countries access to Japanese technology and would draw on China's labour resources.

Three-way trade flourished until a few generations ago, and Kyushu has been internationally minded even in Japan's most isolated periods. Other local business leaders share the expectation that the removal of the political obstacles which have hampered such links in the second half of the 20th century will restore what they see as the natural status quo ante.

Gordon Cramb



Croquet-playing tourists in Beppu: Kyushu has been successfully competing for foreign tourists, especially from south-east Asia

AT THE Suginoi Hotel waitresses busily clean up after the vast number of guests who have eaten at the dinner buffet in the great dining hall. Aside from traditional Japanese dishes, the hotel serves a number of Korean stews and plates of *kimchi*, a red hot Korean cabbage pickle. For as well as attracting local tourists, the hotel - in Beppu, famous for its hot springs - caters to large numbers of South Korean visitors.

Kyushu has been successfully competing for foreign tourists, especially those from south-east Asian countries. Of the 40,000 South Koreans expected to visit Oita this year, some 30,000 will stay at the Suginoi.

The area has become more accessible for South Koreans since Korean Air recently launched direct flights from Seoul to Oita, three times a week. The one-hour flight has brought Seoul and Oita so close that South Korean politicians and leading businessmen come incognito to take a dip in Beppu's hot springs for a few hours.

However, the Suginoi has not achieved its popularity overnight. After seeing the rush of Taiwanese tourists to Kyushu after liberalisation of overseas travelling in Taiwan in 1979, Mr Tatsufumi Watanabe, Suginoi's president, predicted the South Korean market would hold the same potential.

When the South Korean government announced the gradual lifting of restrictions on foreign travel in the early 1990s, Mr Watanabe decided to start promoting Beppu to South Koreans. Mr Kohji Shudo, head of sales and promotion, expects the

The South Korean market is growing fast

Kimchi tops the menu

hotel's revenues from South Korean tourists to total ¥2.5bn this year. While some hotels and *ryokan* - Japanese-style inns - are reluctant to target foreign clients due to the lower sales per head, the Suginoi is sticking to its strategy because of the South Korean market's high potential.

The hotel has several Korean-speaking employees and plans to send staff to South Korea for training. Mr Choi of Korean Air says that since meals mean a lot to Korean tourists, buffets, which allow guests to eat as much as they want, are ideal. "They don't want to be bothered by being told how to eat a raw egg for breakfast."

Other prefectures have established strong links with south-east Asian countries. Kagoshima prefecture, this year celebrates the 20th anniversary of its ties - through trade, culture, and tourism - with Hong Kong. Last year, Kagoshima attracted over 58,000 south-east Asian tourists.

A number of new theme parks have started to attract Japanese tourists to Kyushu. Space World in Kita-Kyushu, set up by an affiliate of Nippon Steel, saw a steady inflow of visitors this year.

Tours combining Space World and Huis Ten Bosch, a replica of a Dutch town set

up in Nagasaki which opened last March, have also been a great success.

At Huis Ten Bosch 25m bricks were imported from the Netherlands to construct a Dutch town with buildings which include complete replicas of famous Dutch cathedrals and city halls as well as original creations of Dutch architects.

But why a Dutch city in Nagasaki? From the mid-1640s to 1854, Nagasaki was Japan's sole gateway to the rest of the world. The Dutch and Chinese were the only trade partners permitted by the Tokugawa Shogunate, thus Japan's exposure to western culture was through a little Dutch trading post in Nagasaki Harbour.

However, Huis Ten Bosch, with its 8,000-meter canal network and an adjoining Dutch-style residential area, is only a base for a future resort city, says Mr Akira Kawada, managing director of Nagasaki Holland Village Corporation, the creator of Huis Ten Bosch. In the future, Mr Kawada says it wants to develop the area into a city of about 10,000 residents and hopes Japanese companies will create satellite offices, so employees can work in an environment close to nature.

Emiko Terazono

PROFILE: BAXTER INTERNATIONAL

Drawn by clean air

WHEN Baxter International, the US medical products group, was seeking a site for a factory in Japan, its consultant identified 1,500 possible locations. A hillside outside Miyazaki city in south-eastern Kyushu was not among them.

Yet that is where Baxter ended up three years ago. The still expanding operation, which now employs 130, is one of the island's smaller foreign manufacturing enterprises. But it bears testimony to the determination of regional authorities to land their chosen overseas investment catch.

The prefectural government hearing of Baxter's search, obtained biographies of the executives involved. Discovering that Mr Komatsu Kazuo, the head of Japan Baxter, was a marine college graduate, officials put out feelers until they found someone from the same academy who could arrange an introduction. Through this circuitous route they were able to convince the US company's directors to pay Miyazaki a visit.

For their part, aside from standard criteria such as labour availability and infrastructure, Baxter executives had other, less tangible requirements. A city with a good quality of life was one factor, even though the group was not shipping out expatriates to run the plant. And it wanted to be the flagship foreign enterprise in its area - a site elsewhere, neighbouring another American plant, was rejected for that reason.

Miyazaki's ardour did not go unrequited. Board members who arrived at what was being turned into a gleaming new airport and toured the estuary city of some 290,000 people declared: "This is a Baxter town," according to Mr Tokoro Inel, a former Johnson and Johnson official who is now manufacturing director at the Baxter Miyazaki site.

This July, Baxter added a second production line at the plant, which supplies peritoneal dialysis bags to kidney

Baxter wanted to be the flagship foreign enterprise in its area - a site near another US plant was rejected for that reason

patients. It saw a growth opportunity in Japan where barely 5 per cent of such patients use the system, which averts the need for thrice-weekly hospital visits and is employed by a fifth of US and a third of British sufferers. The company now claims 92 per cent of the Japanese peritoneal dialysis market.

Miyazaki, home to the first of 26 sites in Japan designated as a "technopolis", saw its education and research facilities as a selling point. Baxter now sends selected employees on six-month secondments to work with doctors at the local medical university, from whose graduate output it also recruits.

The prefecture says it cannot compete as an investment location primarily through financial inducements. Incentives "are not so high - they are average, the government here is not so rich", acknowledges Mr Masayuki Nakano, director general of its commerce, industry and labour department.

The main private sector employer has for decades been Asahi Chemical, but its fibres plant has not expanded in recent years and the prefecture remains anxious for new industries. The arrival in Kyushu of the big Japanese automotive groups has brought several medium-sized components suppliers to Miyazaki, "but we want assembly lines", says Mr Nakano.

Baxter decided to live with the area's high transport costs for the sake of the good labour and clean water and air its clinical product requires. But the positive attitude of the regional authority was crucial. The facility was up and running in the space of six months, with local officials helping secure the necessary ministerial approvals. Staff were hired by combing a prefectural "human resource bank", a list of local graduates who had gone to work in other parts of Japan.

They were among the modest annual trail of "U-turners" forsaking higher metropolitan salaries and drawn, like their employer, to Kyushu's environmental benefits.

Gordon Cramb



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MANAGEMENT: THE GROWING BUSINESS

Charles Batchelor offers advice on how to avoid the pitfalls when organising a conference

We can't go on meeting like this

You've probably been there too. The seminar where the presentations bore only a tenuous relationship to the advertised theme. The training session where the overhead projections were too detailed to read from the second row back. The hotel at the other end of town from the conference centre.

Companies spend large sums of money on meetings, seminars and conferences and their executives and staff devote equally prodigious amounts of time to attending them. Some are in-house sessions designed to motivate the sales force or keep managers up to date; others are intended to promote the company's image to the outside world.

How can they make sure they get value for their money, that they do not waste their time and they do not damage their image? It probably makes sense to call on professional help for the more elaborate event, although the conference field can be confusing.

You will probably encounter four main types of adviser: production companies which will arrange the visuals and stage sets; venue search companies; convention bureaux which promote facilities in their town; and project managers who will run the whole show. Some production companies and venue searchers have also attempted to move into project management.

Companies frequently turn to conferences and seminars as part of their marketing effort, to boost their image. "But the first thing to

ask yourself is why you are doing it," says Vanessa Cotton, managing director of the Event Organisation Company. "The outside world will not be interested if a company just wants to say how good it is. People are even more time conscious than they are cash conscious. Put yourself in the delegate's place and ask if he will feel cheated."

Some of the most effective professional conferences are those where the organiser picks a broader management theme of genuine interest to its target audience.

Cotton recently organised a conference for a computer company on the subject of managing change within organisations. By sponsoring the debate, the company was able to project itself in a favourable light without appearing to be selling its own products.

The current recession has made companies opt for simpler events - even if they can afford it, they may not wish to be seen to be putting on too lavish a show - but presentations must still be exciting if they are to be effective.

"We would dissuade a client from just putting on talking heads," says Cotton. "People won't be able to concentrate on them for long and you can't communicate with people who have fallen asleep."

Even if the meeting is low-key, people have become accustomed to high standards of presentation from television, pop concerts and opera and will expect the same at a busi-

ness presentation. While most conference venues have skilled technicians who can help to ensure that the slide projector works, it is often harder to get the speakers themselves to perform effectively.

Cotton says she insists on briefing speakers, however eminent, on the theme of the conference. She asks for a one-page synopsis of what they are going to say and later a copy of the complete speech.

"Speakers can shoot off in different directions. There has to be a progression in the speeches," she says. If a speaker is unsure about his ability to speak in public, then he must be persuaded to go on a course of presentational skills.

But for many companies planning a meeting or a conference, the venue is the first consideration. Venues may be functional or spectacular depending on whether the intention is a straightforward discussion of some aspect of business or to reward the sales team for a good performance, says Steven Foulkes-Murray, founder of Meeting Places, a conference organiser. Country house hotels, castles in Ireland and even cross-Channel ferries have been used for meetings with a "reward" element to them.

"You can pay a lot of money for a prestigious hotel on Park Lane but you won't get value for money if you are holding a functional meeting. You might be better off in a more modest venue."

Whichever style of venue you choose make sure that it is accessible to the people who are coming. If



ROGER BEMLE

the sales team will all be turning up in their company cars, do not choose a hotel or conference centre with no nearby parking. If people will be flying in from around the world, make it central. If most delegates will be using public transport, do not choose somewhere in the middle of the country.

A hotel may be more convenient if the conference is to last longer than one day because delegates will not need to travel to their accommodation. But hotels, despite their attempts to improve the quality of their conference service in recent years are not always the best venues.

Cotton says she prefers to use conference centres where the staff are specialists in organising meetings rather than hotels which often regard conference business as an adjunct to catering. An advantage of hotels is that they can often provide smaller rooms but they frequently do not have purpose-built facilities.

"You don't want to hold your meeting in a converted, L-shaped

bedroom," says Foulkes-Murray. If a company uses a professional events organiser, it may leave the details to them. But if it deals directly with a conference centre, the company must carry out its own checks.

It is less common now but still not unknown for companies to book a venue without even visiting to see if it is suitable, says Jenny Lazzell, conference manager at the Sedgwick Centre in east London. "People still prepare their audio-visual aids without checking whether they are suitable for the venue," she says.

Whoever is responsible for organising the meeting should discuss all the details with the centre, she advises. "What looks good on paper often doesn't work in practice." It is unrealistic to expect delegates who have arrived from all over the country to pitch straight into the conference without a tea or a coffee or to sit through a morning of presentations without a break.

Do not attempt to squeeze too much into a day, the experts advise. It is unlikely that 300 people will be

able to eat lunch in an hour. Not only are they unlikely to taste their food, they will not have had time to chat to old friends and contacts or go to the lavatory, says Gill Price, business manager of the Queen Elizabeth II Conference Centre in Westminster.

Dietary requirements have become increasingly complex and conference organisers need to take into account that some of their delegates may have medical, philosophical or religious reasons for not eating certain menus, says Price.

The details of a conference are best dealt with by one person at the company, whether it is the managing director's secretary or a specialist meetings organiser, says Lazzell. With the more ambitious conferences costing hundreds of thousands of pounds, the cost of getting it wrong can be very high. The damage to a company's image of a poorly handled event can also be considerable.

"There is a risk," says Cotton. "This is why you need to plan ahead rather than fight fires."

How to make sure your company is not sold down the river

Selling your business is no easy task, particularly in a recession, and many vendors call in a merchant bank, accountant or specialist broker to help, writes Charles Batchelor.

But vendors have in the past complained they were given an exaggerated idea of the price their business might fetch and that the adviser was not active enough in

looking for prospects. To ensure you deal with a competent firm you should meet and compare at least three advisers, suggests Tim Lyle, a director of Livingstone Fisher, an acquisitions and disposals specialist.

Ask who will be leading the assignment and make sure that he or she will actually be available when needed. This avoids having

junior staff learn at your expense.

Quit the adviser on what similar deals he has handled successfully. This ensures that he has the capability and that the deal will be important enough for him to devote time to.

Find out if the firm has any experience of your sector. Obtain names of other clients you can contact for a reference.

The adviser should be able to say:

- When it would be best to sell. It may make sense not to do a deal immediately but to turn the company round or expand it further to maximise the sale price.
- How it is proposed to find potential buyers from around the world.
- How confidentiality will be maintained.
- Whether the adviser has han-

dled sales to management teams as well as to corporate buyers. A buy-out may make more sense.

- How the deal would be structured to minimise capital gains tax. It is important to discuss fees before going any further.
- Avoid a fee structure based on an hourly charge which does not set a maximum figure.
- Insist that the adviser shares

the risk of failure by agreeing a much lower maximum fee if no deal results, including a decision on your part not to go ahead.

- Do not pay any fee in advance.
- Expect to be involved, say, quarterly in arrears but to pay a "success fee" immediately on legal completion.

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PEOPLE

BT and Mercury set for gridlock?

Two former top executives at Cable and Wireless and British Telecommunications have joined forces to spearhead a challenge by the National Grid Company to the telecommunications duopoly operated by their erstwhile employers.

Gordon Owen, group managing director of C and W until last year, became special adviser to the project, called Telecom Electric, at the beginning of the month. Previously he was in charge of C and W's subsidiary, Mercury Communications, which is BT's main rival in the UK market.

David Dey, managing direc-

tor of BT's business communications division until last year, has joined as Telecom Electric's project leader. Before working for BT, he was in charge of Plessey's telecommunications business.

If a pilot project is successful, the intention is that Owen will become chairman and Dey chief executive.

The appointment of such senior figures in the telecommunications industry is being interpreted as evidence that the National Grid intends to make a big push into the newly liberalised telecommunications market.

Imperial Chemical Industries has reorganised the top of its troubled chemicals and polymers division following the appointment of Michael Brogden as divisional chief executive in April.

Derek King (left), 44, has been named general manager of a new fourth group within the C&P division, comprising its polyester intermediates business and "Melinar" polymers operations. The other three groups within the division are color, petrochemicals and plastics, and chemical products. King, currently general manager of ICI fertilisers into which the industrial ammonia and methanol operations are to be integrated, will report to Brogden.



Departures

Peter Hobbs, Wellcome's personnel director and the only remaining member of the pre-1986 board - when the pharmaceuticals group was floated - has left the company.

Neither he, nor Wellcome, the company best-known for Zovirax, an anti-viral medicine, and AZT, the HIV-treatment, would give reasons for his departure.

Hobbs, who is 54, says the departure was entirely amicable, although he had no other position to take up. He is considering a number of options in the private and public sector.

Wellcome indicated that his replacement is unlikely to be a member of the main board.

Michael Rebeck has resigned as managing director of Galaxia Precursors, part of MOUNTAIN GROUP which is now in the hands of receivers.

He is replaced by Jaime Uya, the purchasing director.

Harry Mitchell is retiring from WELLCOME.

Michael Livingston, corporate development director of LILLEY, is resigning to pursue other interests.

Barry Whetton has resigned from CONRAD CONTINENTAL.

Howard King has resigned from JONES & SHIPMAN.

Michael Dracup is to retire from LISTER & CO.

Roger Martin has resigned from LGW.

Roger Cottrell has resigned from SL.

Timothy Newman has been promoted to group treasurer of The HAMMERSON PROPERTY INVESTMENT AND DEVELOPMENT CORPORATION.

David Newman, formerly director of finance at Shell Ventures UK, has been appointed finance director of the SIRA Group of companies.

Tan Storey has been appointed international marketing director of MARLOW FOODS; he moves from Unilever.

Andrew Allner has been appointed director of financial control at GUINNESS; he joins from Price Waterhouse, where he dealt with Guinness among other companies, and succeeds Philip Yea who was recently appointed director of finance for Guinness Brewing Worldwide.

John Gaydon, formerly a director and executive producer of Medialab, has been appointed md of POLYGRAM TELEVISION INTERNATIONAL.

Paul Seftel has been appointed md of BENDUCKS of MAYFAIR, the UK subsidiary of The Storex Group.

Terry Dabbs, md of Electrolux Service, has been appointed senior vice-president of After Sales, Europe.

Martin Sanderson, finance director of Carls, has been appointed to the board of its parent, THE HOPKINSONS GROUP.

John Cope has been appointed to the board of PORTALS GROUP and md of its protection and control division.

David McNair has been appointed marketing director of Hiram Walker, the spirits and wine sector of ALLIED-LYONS; he moves from United Distillers.

William Whitehead (below), formerly director of manufacturing operations, has been appointed to the main board of ROYAL DOULTON as production director.



Tokio Katayama has arrived as the new director general in London of the Japan External Trade Organisation (JETRO's largest overseas office).

Like all appointees to this post, Katayama comes from the Ministry of International Trade and Industry (MITI). Since 1990 he has been director of the electric power administration division of the Agency of Natural Resources and Energy. Before that he had picked up experience of trade relations as a director of the North Asia division of MITI, dealing with Taiwan, South Korea and Hong Kong. At MITI since 1989, he spent three years as first secretary in the Japanese embassy in Singapore, where he was concerned with Japan/Singapore trade relations.

He succeeds Shun-ichi Nakao, who is returning to Japan after two years in the UK - which included the Japan Festival, a "highlight" of his tour, according to an official. Nakao becomes executive director of the New Office Promotion Society, which is aiming to improve conditions for the country's office workers.

While JETRO these days concentrates on promoting foreign imports, rather than Japanese exports, Katayama is giving nothing away as to precise plans for his UK sojourn.

The statement that emerged from his office read: "It is most gratifying that as a result of mutual effort over many years, Anglo-Japanese relations are so good. Although there have been some problems between the two countries, we have always been able to iron these out, and I believe that the most important thing is our continuing will to deepen and widen this good relationship for the future."

BUSINESS LAW

One-stop shopping in Czech privatisation

By Daniel Arbess

In the former Czechoslovakia, the "velvet divorce" of the Czech lands and Slovakia has preoccupied the outside world in recent months. Behind the scenes, however, the Czech Republic is quietly forging ahead with a programme of economic reform and privatisation that is already serving as a model for the region.

One of the most important developments in the reform programme is the creation of an overnight capital market for thousands of companies participating in the voucher privatisation scheme. The initial wave of privatisation involves five "rounds" of bidding. In the first three, more than 120 companies have identified their new shareholders, and by the end of the year, nearly 1,500 companies will be trading.

The majority of these will be controlled by a handful of closed-end mutual funds. Fund managers have induced individual holders of voucher books to invest with them by promising guaranteed returns. The funds will soon be under pressure to sell to satisfy these put obligations.

They will also want to maximise their investments, restructuring the old state enterprises by raising capital and negotiating for foreign management, technology and marketing commitments.

All of this should spell opportunity for many strategic and financial investors who have been waiting on the sidelines to see how the reform programme developed.

A new Securities Act will come into force on January 1. It will feature standard disclosure and trading rules and set the stage for efficient capital markets which will be open to foreign investors without the complexities inherent in the previous "deal path" of buying from the government.

Direct foreign investment in the Czech privatisation programme has so far been limited to just 41 deals, with total investment falling significantly shy of the anticipated level of

several billion US dollars. While not discouraging foreign investment, government policy has generally favoured letting the new shareholders sort things out with willing buyers after voucher privatisation. As a result, investors purchasing deals with the government have complained about the ad hoc character of the process, especially the lack of co-ordination among reviewing ministries and the absence of review criteria.

The government has tried to address these problems and generally accelerate the process by creating a new inter-ministerial privatisation commission as the deciding authority to replace the cabinet-level economic council. All key ministries will be represented on the commission, opening the door for the first time

apply to companies due to be privatised in the second wave. The resolution indemnifies foreign buyers completely against off-site environmental liabilities associated with the assets being privatised.

Foreign investors will have to assume liability for on-site environmental conditions. However, the resolution establishes a procedure under which up to 50 per cent of the purchase price paid for the privatised assets will be held in escrow and made available by the government for necessary environmental investments.

Escrow fund payouts will be based on an audit of environmental conditions at the date the deal is completed, and on performance of a remediation programme which is to be agreed between the purchaser and local and federal environ-

tion will be outweighed by the economic benefits produced by the merger.

The factors that will be considered in this balancing test are still emerging. Initial rulings do indicate, however, that the COEC will consider access to foreign technology and markets that will prolong the life of the Czech target company as a public benefit that may compensate for the detriment caused by a dominant market position.

The COEC is currently promising to grant preliminary opinions on transactions already in the pipeline within a few days. However, after the completion of a transaction the COEC reserves the right to re-evaluate the project and revoke its preliminary approval if it finds evidence that the foreign buyer intends to engage in predatory practices. Foreign investors would be well advised to plan against this contingency with appropriate contractual escape clauses.

A final warning for the foreign investor is the caveat emptor principle. The National Property Fund, which is the selling entity in direct foreign investment privatisations, is taking a very tough stand on representations and warranties that will be made to foreign buyers.

The fund's standard form contract provides only for limited representations as to the organisation and standing of the target company; due authorisation and execution of the purchase contract; valid ownership title to, and absence of litigation affecting, the assets being privatised; and all necessary consents having been obtained.

Standard balance sheet and other representations should not be expected, although these have been granted in selected cases where they are contemplated in the privatisation project submitted for government approval.

The author is a partner of the international law firm White & Case.

An inter-ministerial commission will become the deciding authority on foreign investment proposals

to the possibility of one-stop shopping as an welcome alternative to renegotiating with different ministries along the way.

The privatisation commission is even talking about publishing criteria for foreign dealer, these have long been applied quietly by investment bankers to the Czech Ministry of Privatisation. The move would improve the transparency of the process by giving foreign investors (and reviewing bureaucrats) a set of benchmarks around which to structure their proposals.

The government has also published a resolution dealing with environmental liabilities. Foreign investors are understandably nervous about such liabilities in light of the poor environmental record of previous state enterprises, and the stated intention of the Czech government to enforce European Community standards during the next few years.

The new resolution will

mental officials.

The audit and remediation programme do not need to be finalised before completion of the transaction, although it is clearly in the best interests of the foreign investor to see that they are.

The Czech government has also clarified the role of the Czech Office for Economic Competition (COEC), which was created by anti-trust legislation early in 1991. This body will now review all privatisation transactions involving foreign investment.

The COEC will initially analyse the target company to determine whether it has a "dominant" market position, defined as holding more than 30 per cent of the market for the relevant product. If the company was judged to be dominant, COEC would analyse the potential for abuse of its position.

The COEC will seek to determine if "any detriment which may arise from limited compe-

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London Galleries

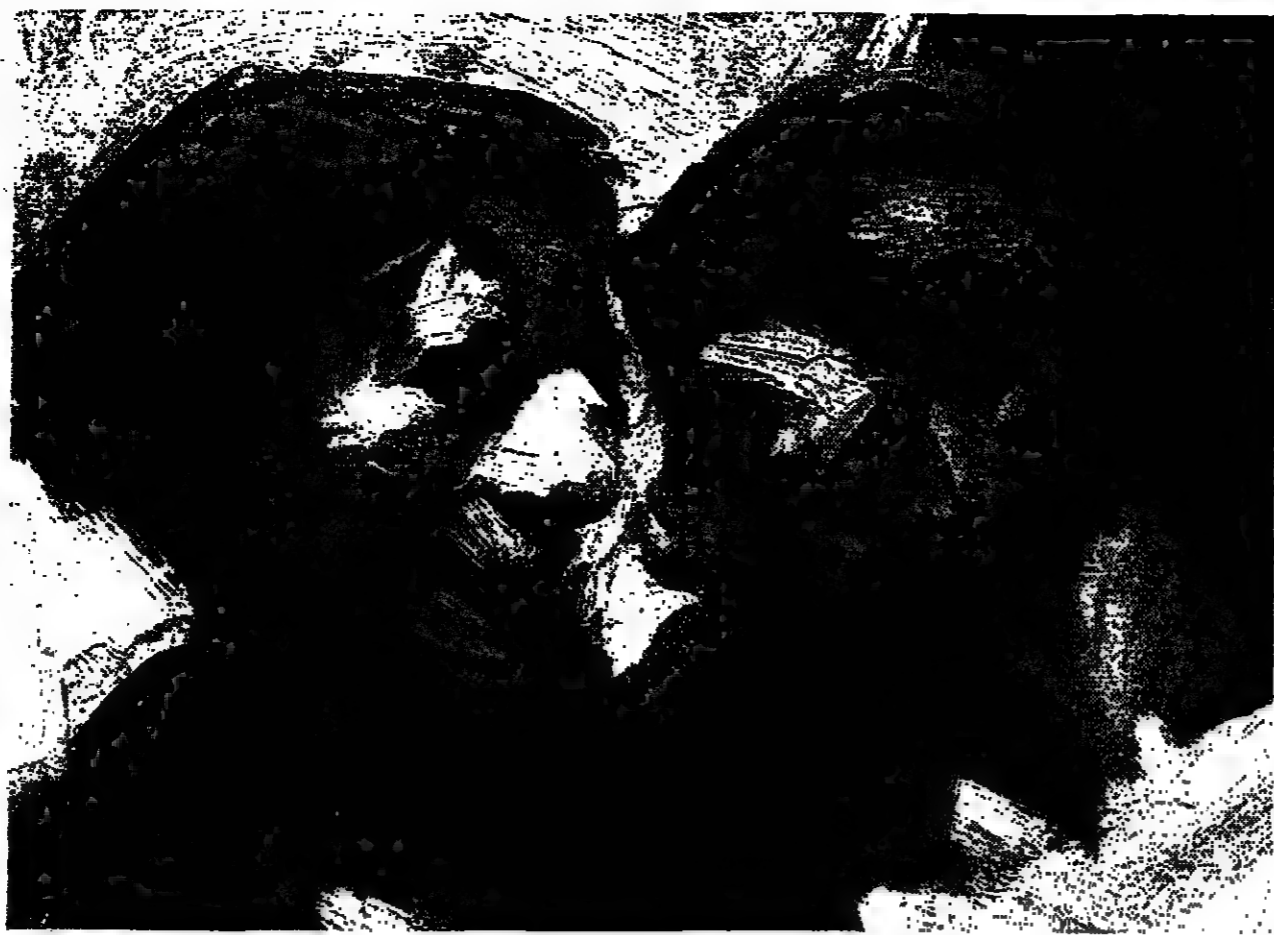
Faced with a view

Tai-Shan Schierenberg, now 30, first came to general notice as winner of the National Portrait Gallery's John Player Award of 1989. That interest was sustained by the accession to the collections early this year of the portrait of the writer and barrister, John Mortimer, that had been commissioned as part of the Award. Now he is having his first substantial exhibition at a London gallery.

Such progress is not unusual, but it is deserved. The much-vaunted revival of figure painting has all too often been honoured more in the breach than the observance, the enthusiasm of young artists for the idea of the 'figure' out-running all sense of technique, analysis and understanding of the subject. Schierenberg is nothing if not enthusiastic, as much for the medium and stuff of oil paint and the act of painting itself as for his subject, and yet his natural expressionist ebullience is never out of hand. The figure is invariably well established in a coherent pictorial space, formally complete, an active presence and credible likeness, no matter how cursory the statement.

The point is only that such formal strength never springs entire from the artist's own head, but must depend on the essentially disinterested study of the external reality and truth, the truly creative imagination necessarily responsive and self-conscious. Schierenberg may leave off at the judicious moment - even a moment too soon, with a hand or face or foot as yet unresolved - but in all these paintings, the small landscape and portrait studies and the larger, ambitious conversation-piece, alike, it is clear that he sits in front of his chosen subject and immerses pre-occupation, and looks at it long and hard.

In any sensible world 66 year old Peter Coker should by now be enjoying the fruits of reputation and distinction won over



On show at Angela Flowers: 'Girl Friends', 1992, by Tai-Shan Schierenberg

a long career. Yet, such is the English penchant for putting artists into safe and certain categories that he is by no means so well known and supported as he deserves to be - a situation made all the more poignant by illness that has prevented him working these two years past.

On yes, he enjoyed an early success with the new social realism, the 'kitchen sink' painting of the 1950s that has now been given a room to itself in this year's hang at the Tate; and, yes, he was elected to the Royal Academy remarkably young. But that was more than 30 years ago, and the subsequent quasi-official support, the British Council tours abroad, the inclusion in the definitive exhibitions at home, the regular monitoring of the work and, in due course, perhaps, the retrospective at the Tate, have not been for him.

It only takes a sight of this current retrospective, small as it is in its London showing, and the barest consideration of those artists who have received consistent support across the years - the Hamiltons and Hockneys, the Longs and Denys and now the Hursts and Whitereads - to reveal such an attitude for the partial, self-serving, myopic nonsense it really is. Coker might not be an important artist in quite such terms as pass for importance in the curator's or modern art-historian's eyes, but how often do we find such 'importance' trotted out to mask manifest ineptitude or affectation? All the time. And the actual quality of the work? Ah, well, none, yes, quite.

Coker's essential subject is the landscape, wild and windswept in the Hebrides, hot and domestic in France, close and intimate in Epping Forest. To mark the transition from those old sides of beef of the 1960s to the trunks and clumps of trees that followed soon after, and so on to the later cliffs and fields

and hillsides, is to see no arbitrary shift and readjustment, but a natural, ordered and consistent development. Those butcher's still-lives, controversial in their time, seem now a kind of landscape, those trees still-life of sorts, and the landscapes down the years drawn ever with the firm hand and close attention that were the character of those quietly obsessive, monumental early images. We can only pray that Peter Coker is at work again before too long.

Stephen Finer, now with Bernard Jacobson, is having his fourth London show. He is a painter principally of the human head, worked for the most part on a fairly small scale. He works from the model, yet it would be misleading to describe his paintings as portraits, for any conventional likeness is shadowy, obscure and fleeting. Yet, in these densely overlaid and reworked surfaces, the marks buried and obliterated and insistently re-established, the sense of a real and particular human presence

remains curiously strong - likeness as experience and sensation rather than obvious record. So it is that he stands with such mentors as Auerbach and Bacon in the tradition of a disciplined and objective expressionism.

Also showing at Flowers East and London Fields are Trevor Sutton, with his new monotypes; John Loker, with recent water-colours; and Caroline Hodgson, with a most impressive group of her latest sculptures and works on paper, ambiguously redolent of landscape, and the landscape implicit in the human figure.

William Packer

Tai-Shan Schierenberg: Angela Flowers at London Fields, 288 Richmond Road E8, until October 11. Peter Coker: Abbot Hall, Kendal, until October 26. & The Friends Room, Royal Academy, until October 11; the two shows combine for Carlisle and Ipswich. Stephen Finer: Bernard Jacobson, 14a Clifford Street W1, until October 3.

Lucerne Festival/Andrew Clark

Les Six, street music and Sinopoli

Despite the woolly choice of 'Europe' as its theme, Lucerne emerged from this year's festival with its reputation for resourceful programming intact. The Columbus anniversary was celebrated in two concerts - one pairing grandiose tributes to the explorer by the youthful Wagner and Honneger, the other devoted to Renaissance music and directed by Jordi Savall, who seems to be doing for early and classical Spanish music what Hogwood, Pinnock and others have done for Bach and Handel.

The other subsidiary theme was Les Six, three of whom - Honneger, Milhaud and Tailleferre - were born 100 years ago. The festival laid on an admirable series of lunch concerts to explore the chamber music, but the centrepiece was a surrealist double bill in the city theatre - the Coteau ballet *Les mariés de la tour Eiffel*, to which five members of Les Six contributed, and Poulenc's opera-bouffe *Les mamelles de Tirésias*.

The ballet describes the bizarre characters and events at a bourgeois wedding party on the Eiffel Tower. It may no longer shock audiences in the way Coteau intended in 1921, and its structure and content are slight; but it adds up to a fast and mischievous entertainment, with an authentic Gallic verve deriving as much from Coteau's spoken commentary as from the music. Auric wrote the explosive overture, Tailleferre a cheeky 'waltz of the telegrams', Honneger a parody of a funeral march and Milhaud the raucous, pompous finale.

There are ten short numbers in all, of which only Poulenc's charming 'Bathing-girl of Trouville' is ever heard independently. As Ronald Crichton points out in an illuminating essay on Milhaud in this month's Opera, Les Six were bound more by personal friendship than by similar musical tastes - and yet this work, premiered a year after they were christened as a group, shows a distinct compatibility of style. It should be less of a rarity. Thorstein Kreissig's cho-

reography was fussy, but the conductor, Olaf Henzold, captured the wit and scintillating colour of the music.

The double-bill with *Les mamelles* made sense on paper, but after the farcical goings-on of the ballet, the opera was an anti-climax. Something of greater contrast - perhaps *La voix humaine* - was needed, and the dialogue of Poulenc's domestic allegory, based on a play by Apollinaire, lost its spice in German translation. But the biggest handicap was the staging. Instead of trusting the natural comic irony of the piece, the producer Philipp Himmelmann loaded each

answer - at the end of a noisy, hectic and controversial week of eliminating rounds at selected sites around the city - was 'yes, probably'. But some awkward lessons were learned in the process. The competition, which had the laudable aim of breaking barriers between tourists, townsfolk and the snobby aura of the festival, gelled with the formal events like oil and water, and should in future have a separate slot in Lucerne's summer calendar. Given the bohemian egalitarianism of street musicians and the variety of skills they present, it seemed invidious to single out one group or individual for a big cash prize - especially when the winner turned out to be the daughter of one of the judges. Small wonder this left a bad after-taste.

Lucerne's visiting orchestras offered plenty of high-brow glamour but varying degrees of satisfaction. Claudio Abbado's rapturous *Daphnis et Chloé* with the Berlin Philharmonic, which I heard on the radio, was billed as complete but in fact was subjected to all sorts of inexplicable cuts. The St Petersburg Philharmonic (with Yuri Temirkanov) followed their glorious Tchaikovsky *Manfred* Symphony with the Musorgsky/Ravel Pictures from an Exhibition, which exposed weaknesses in the orchestra's brass section and proved how un-Russian this piece really is.

The Dresden Staatskapelle's golden-toned early-Straussian instrumental solos distinguished their performance of *Ein Heldenleben*, but their new chief conductor, Giuseppe Sinopoli, laid bare his lack of repertoire with a lumpy, shapeless Schumann Third Symphony. The old way of doing things was for a conductor to build his repertoire slowly and steadily, presenting his interpretations to an international public only when he had lived with the piece, and was properly inside it. Not so today: with Sinopoli and this great German orchestra, the recording contract came first, then the high-profile tours - and the mainstream repertoire is apparently digested somewhere along the way.



Eileen Hulse in 'Les Mamelles de Tirésias'

scene with an extra layer of surrealism: production baggage, reducing the work to the level of cheap pantomime. The cast, led by Eileen Hulse's spunky Thérèse, struggled nobly but unsuccessfully to achieve the necessary fluency. Only the poignant lyricism and sincerity of Poulenc's instrumental music emerged unscathed.

Lucerne this summer broke with tradition by laying on some high-risk experimental events, including an official street music competition. The question posed by the new festival director Matthias Bamert was: does street music exist as an original art form? The

Opera in Innsbruck/Paul Griffiths

Don Chisciotte in Sierra Morena

Several of the most dazzling recent recordings of baroque opera have come out of Hans Jacob's summer performances in Innsbruck: Handel's *Flavio* and *Giulio Cesare*, Monteverdi's *Poppea*, works by Cavalli and Cesti. This year Mr Jacob was looking for something Spanish, since in Austria 1492 is being remembered for Spain's eastward rather than its westward expansion. Hence the happy choice of the considerably obscure Francesco Conti (1682-1723), since he was responsible for one of the earliest Don Quixote operas, *Don Chisciotte in Sierra Morena*.

This was one of two dozen stage works Conti wrote for the Viennese court. It was played at the 1718 carnival, and three years later reached Hamburg, with the recitatives translated into German by Mattheson, who recorded that it was 'despised to fore-see laughing even at a first reading through the score.' Innsbruck's Landestheater production let the piece smile once more. Mr Jacob has a way of

brushing accompaniment under the voices, so that although the reproduction instruments of his Concerto Köln can sound brisk and cheerful, the projection is fundamentally vocal and from the stage. Even with a number of big *da capo* arias and a playing time of close to four and a half hours, the opera fairly slipped along on the skid of pathos and humour which the librettists Apostolo Zeno and Pietro Parlati ably conveyed from their source.

Of course, Conti helped. Unlike the contemporary operas of Handel, *Don Chisciotte* has a great variety of vocal types: alto castrat (here counter-tenors) for the rival swains Cardenio and Fernando, sopranos for the girls Dorotea and Lucinda, another male alto for the frenetic barber whose bowl Don Quixote takes for a magic helmet, a treble for a page, inevitably a buffo bass for Sancho Panza, and an aptly erratic tenor-bass for Quixote himself.

There is also great variety of characterisation. Cardenio and Lucinda are

paragons of the sweetly amorous-lyrical parted by the plot for most of the opera, they naturally have their centres in plaintive ardour and patience respectively, though even in their cases cliché is skipped by creative enthusiasm: the place is full of melodic bravado, bursting towards the reckless simplicity of a later age of Italian opera. Fernando is an angrier sort (Jeffrey Gall was a responsive contrast with Derek Lee Ragin as Cardenio). Dorotea is an interesting variant, in that much of her part is sung tongue-in-cheek as she leads Don Quixote a dance, pretending to be an exotic queen dispossessed by a giant: the role requires - and got from Jennifer Smith - grandeur for a first aria of minor-key sicilianas, lament, and bold-faced comic irony for much of the rest. Again there was a suitable contrast with the sustainably beautiful performance of Audrey Michael as Lucinda. Michael Schopper and Isabelle Poularnaud romped through the vigorous duets for Sancho and a maid at the inn.

Dominique Visee, as the barber, added to his repertoire of high-register hysterics. Nicolas Rivenq kept up a wild thrust as Don Quixote, tottering on the edge of absurdity: it is hard to know whether it was just his performance that revealed so much Quixote-ish mad extravagance and absorbed self-pity in the part. Gerd Turk had the luckless task of representing normality in the person of Lope. Judith Vindevoel was his bright boy attendant.

Nobody was much helped by the production. Roland Topor's designs had adventitious jokes on the wrong scale - like Quixote's costuming in sheets torn from romances, barely discernible even from the third row of the stalls. And the singers seemed to be moving and reacting without much guidance from the director, Jean-Louis Jacopin. But the musical distinction and energy were captivating, and the piece came up as something rather remarkable, well worth revival again before another 270 years have gone by.

Death haunts the skies over Stroud, Gloucestershire in David Goodland's vivid *Anzacs Over England* at the Swan, Worcester. This theatre is beginning to specialise in local social history with wider appeal. Goodland has already adapted the rural writers Winifred Foley and John Moore for the stage; with *Anzacs* he uses social history leavened with imagination.

Anzacs represents an increasingly popular kind of drama, where families and individuals are the crucible for larger social reactions. Arthur Miller's plays set the modern type, and his best exponents now are Annie Hawwood and Brian Friel. Here David Goodland charts the impact of 1,000 Australian Flying Corps volunteer airmen on two Cotswold villages during 1918-19. In Stroud, the Pope family

represents English feudal life at its most static. They work on the local estate, and feel the pain of war when one son is lost and another gassed in France. But it is the daughter, Annie (Miranda Pleasance, making her debut), in love with Australian airman Jeff (Richard S. Huggett of *Neighbours*) who encapsulates the tension between the hierarchy of the old world and the democracy of the new. She marries Jeff, and leaves when the Australians ship out in 1919.

Goodland finds 'fair dinkum' humour in the meeting of Oz and Blighy; he tempers this by recounting the deaths of 35 airmen who crashed their Sopwith Camels in training. So far, the pace is slack, and the inset 'revue' scenes, where the Aussies perform for the locals, should be cut down.

However, Pat Trueman's direction gives scope to good performances in the Pope household, with Vivienne Moore as the mother offering sympathy or stew, and Owen John O'Mahony as the outraged father clutching his newspaper in cramped jealousy.

Anzacs will shortly be recorded by BBC Radio, and should be sharper when cut. The question it tackles but never answers is about loyalty: why did so many men volunteer to fight and die for a far-off country? By the end of the war, Australian casualties numbered over a quarter of a million, at two thirds of those who volunteered, the highest proportion among combatants. They deserve this tribute.

Anzacs Over England, Swan Theatre, Worcester until October 3 (0905 27322)

Theatre/Andrew St George

Anzacs over England

INTERNATIONAL ARTS GUIDE

AMSTERDAM

Concertgebouw 20.15 Borodin Quartet plays works by Tchaikovsky and Brahms. Tomorrow: Telemann recital with On Koppman (6718 345).

Beurs van Berlage 20.15 Julian Reynolds conducts Sweelinck Conservatory Orchestra in works by Wagner, Berlioz, Franck and Tchaikovsky. Thu and Fri: Netherlands Chamber Orchestra. (6270 486).

Muziektheater 20.15 Dutch National Ballet in choreographies by Maguy Marin, Hans van Manen and Krzysztof Pastor. Also tomorrow, Fri and Sat. Thu and Sun afternoon: Samson et Dalila. (9255 455).

BARCELONA

Cullberg Ballet presents Mats Ek's production of Swan Lake at the Liceu, daily until Sun (412 3532). Tomorrow at the Palau de la Musica, Claudio Abbado conducts the Vienna Philharmonic Orchestra in symphonies by Haydn and

Mahler (268 1000).

BONN

BEETHOVEN FESTIVAL

Mahler and Berio share the limelight with Beethoven in this year's festival, until Oct 4. Tonight's concert by the Royal Concertgebouw Orchestra, conducted by Riccardo Chailly, includes Berio's Requies and Beethoven's Fourth Symphony. Tomorrow: Dennis Russell Davies conducts Beethoven's complete music for Egmont. Thu: piano recital by Alfred Brendel. Michael Gielen conducts Berio's Epifanie and Beethoven's Fifth Symphony on Fri, and Mahler's Das Lied von der Erde on Sat. Sun: Vladimir Fedoseyev conducts Moscow Radio Symphony Orchestra in Mahler's Fourth Symphony and Beethoven's Seventh. Next week: Roger Norrington and the London Classical Players (775775).

BRUSSELS

MONNAIE

The Brussels opera season opens tonight with Luc Bondy's production of Salome. Antonio Pappano conducts a cast headed by Catherine Malfitano in the title role and Jose van Dam as Jochanaan. Runs until Oct 4; next performances on Thu and Sun (219 6341).

FLANDERS FESTIVAL

Tomorrow's concert at the Palais des Beaux Arts, featuring the London Symphony Orchestra conducted by Michael Tilson Thomas, is the first in a series

organised by the Flanders Festival during the next two months. Other festival events include a concert by the King's Singers on Fri and a song recital by Mitsuko Shirai on Sat in the Monnaie. Next week's events include concerts by the Swedish and Bavarian Radio Symphony Orchestras and the Vienna Philharmonic (840 1525).

OTHER EVENTS

Tomorrow in the Palais des Beaux Arts, Barbara Hendricks is soloist with the Belgian National Orchestra conducted by Ronald Zollman (507 8200). On Fri, the Theatre National opens its new season with a staged version of Dante's *Inferno*, in the Petite Salle until Oct 24. Cornellie's La Place Royale opens in the Grande Salle on Oct 2 (217 0303).

FRANKFURT

FRANKFURT FESTIVAL Michael Tilson Thomas conducts the LSO tonight at the Alte Oper, in a programme of Denis Matthews' Hidden Variables, Mendelssohn's Violin Concerto (Viktoria Mullova) and Tchaikovsky's Sixth Symphony. Tomorrow: Meredith Monk programme. Thu, Fri and Sat: Frank Zappa. Sun morning and next Mon: Claus Peter Flor conducts Haydn's Creation. Sun evening: Sian Edwards conducts Schnittke, Varese and Zappa. The festival also includes a series of John Cage events (1340 400).

OPERA HOUSE

Merce Cunningham Dance

Company performs from Thu to Sun. A programme of William Forsythe choreographies opens the Frankfurt Ballet season on Sep 26, and the opera season begins with Il barbiere di Siviglia on Sep 27 (236081).

ENGLISH THEATRE

Frankfurt's English Theatre at Orto-Viratas has a new production of Peter Nichols' comedy *Passion Play*, daily except Mon until Nov 7 (2423 1620).

LONDON

OPERA

Coliseum 19.30 Jonathan Miller's production of Rigoletto, with John Rawnley (also Fri). Tomorrow: Mark Elder conducts first night of Nicholas Hynes' new production of La forza del destino, with Josephine Barstow, Edmund Barham, Jonathan Summers and Alan Opie (eleven performances till Oct 22). Thu: Ariadne auf Naxos (071-836 3161). Next week at Sadler's Wells: Glyndebourne Touring Opera opens a month-long London season (071-278 8916).

Covent Garden 20.00 Song recital by Teresa Berganza. Tomorrow and Sat: Zubin Mehta conducts Tosca, with Elizabeth Hollique and Luciano Pavarotti. Next Tue: first night of I Capuleti e i Montecchi, with Anne Sofie von Otter. Next Wed: Hermann Prey recital (071-240 1066).

CONCERTS

Royal Festival Hall 19.30 Neville Marriner conducts the Academy of St Martin in the Fields in works by Smetana, Dvorak and

Tchakovsky, with cello soloist Matt Haimovitz. Tomorrow: James Galway plays Mozart with the RPO. Thu and Fri: Pollini plays Beethoven. Sun: Sinopoli conducts Wagner (071-928 8800). Thurs at Barbican: Moura Lympany plays Beethoven's Fourth Piano Concerto (071-638 8891).

Queen Elizabeth Hall 19.45 Andras Schiff, Heinz Holliger and friends give the first in a series of chamber music recitals entitled Contrasts. Tonight's programme features music by Berlioz, Bach, Carter and Kurtág. Tomorrow: Beethoven, Varèse and Bartók. Sat: Schubert, Holliger, Mozart and Boulez (071-928 8800).

Purcell Room 20.00 Lionel Friend directs Nash Ensemble in works by Debussy, Dutilleul and Turgenev. Thu: Nash Ensemble performs works by Tippett, Jonathan Harvey and Britten (071-928 8800).

NEW YORK

JAZZ

Blue Note Jazz Club and Restaurant Lionel Hampton and his Golden Men: a rare grouping of elder statesmen of jazz, including Harry Sweets Edison on trumpet, Al Grey on trombone, Junior Mance on piano, James Moody on saxophone, Arvell Shaw on bass, Grady Tate on drums and Clark Terry on trumpet. Showtimes are 21.00 and 23.30, daily till Sun. Next week: Max Roach Double Quartet (475 8592).

OPERA/CONCERTS

State Theater 20.00 New York City Opera presents The Desert Song, a 1926 operetta by Sigmund Romberg. Thu: Busoni's Doktor Faust. Fri: Il barbiere di Siviglia. Sat: Cav and Pag. Sun afternoon: Rigoletto (870 5570). Tomorrow in Avery Fisher Hall: opening concert of New York Philharmonic's 150th season (875 5030). Next Mon: opening of Metropolitan Opera season (382 6000).

WASHINGTON

CONCERTS

Mstislav Rostropovich conducts the National Symphony Orchestra in tonight's concert of music by Augustus Read Thomas, Bach and Dvorak. Performances Thu, Fri, Sat and next Tue: Rostropovich conducts a Latin American programme (Kennedy Center Concert Hall, 467 4600). THEATRE Nagasaki Dust: a new play about a young Japanese-American man trapped in Japan at the outbreak of the Second World War. Daily except Mon till Oct 18. (Eisenhower Theater, 467 4600).

JAZZ/CABARET

Blues Alley Jazz Supperclub Tomorrow: Scott Henderson and Tribal Tech, contemporary guitar. Thu and Fri: Delfeayo Marsalis Sextet, T-bone. Sat and Sun: Wayne Henderson and the Next Crusade. Mon: Ney Mello and Voyages of Fire, Brazilian. Next week: pianist Monty Alexander. Dinner is served from 18.00. Showtimes at 20.00 and 22.00 (1073 Wisconsin Ave, in the alley, 337 4141).

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

CNN 0900-0930, 2200-2230 World Business Today - a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel

0830-0900 (Mon) FT East Europe Report - weekly in-depth analysis from ETTV 2130-2200 (Tue) Media Europe - what's new in European media business 2130-2200 (Wed) FT Business Weekly - global business report with James Bellini 0830-0900 (Thurs) Media Europe 2130-2200 (Thurs) FT Eastern Europe Report 0830-0900 (Fri) FT Business Weekly

Sat News

0130-0200 (Mon), 2130-2200 (Thurs), 0830-0900 (Fri) FT Business Weekly

SATURDAY

CNN 0900-0930 World Business This Week - a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel

1800-2000 FT Eastern Europe Report

SUNDAY

CNN 1030-1100, 1800-1930 World Business This Week

Super Channel

1800-1930 FT Business Weekly

Sat News

1330-1400, 2030-2100 FT Business Weekly

FINANCIAL TIMES

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Tuesday September 15 1992

Bloodied, but not too bowed

THE BUNDESBANK has given virtually the smallest possible interest rate cut in return for devaluation of the lira. Unless soon followed by more, such a cut is unlikely to make the fate of other participants in the ERM significantly easier. Nor is it likely to do much for the German economy. Yet this cut is being hailed, and condemned, as a sign of rot in the Bundesbank. For that reason, further German interest rate cuts are, in the absence of another foreign exchange crisis, likely to be postponed. The quarter-point cut in the Lombard rate and half-point cut in the discount rate may be the last for a long time.

Those who do view the bargain as showing that the Bundesbank is crumbling are right only up to a point. The Bundesbank has re-established a principle it has always believed in - that the ERM allows for exchange rate adjustment. Only the lira was shaken off this time, but the game is not yet over, however many times British officials may state that the chances of a sterling devaluation are zero.

In any case, the notion that the Bundesbank is entirely independent of politics is a fantasy. A political decision put the D-Mark in the European Monetary System; political pressure forced the Bundesbank to cut the discount rate to its all time low of 2 1/2 per cent soon after the stock market collapse of October 1987; politicians decided the terms of German monetary union and may, depending on the fate of the Maastricht treaty, consign the D-Mark to oblivion.

Appearances matter

Exchange rate policy is the Achilles heel of an independent central bank. That has always been true for the Bundesbank, just as it would be true for a European central bank. Anything, certainly a small interest rate cut, had to be better than continuation of intervention which had already cost the Bundesbank DM24bn (\$25.5bn) last week. As the Bundesbank's chief economist, Mr Otmazling, remarked yesterday, "you can forget all about things like M3 (broad money) if a situation such as we had last week were to continue. We are much better off now than we were last Thursday."

Domestic economic circumstances could also be called in aid.

Regulating the monopolies

SIR BRYAN Carsberg, the new director general of Fair Trading, has proposed a more radical approach for the regulation of monopolies. The former telecommunications regulator believes that lessons could be learnt from the regulation of privatised utilities. These lessons may, however, be more limited than Sir Bryan suggests, given the range of instruments already available to deal with anti-competitive behaviour.

For the UK regulatory regime has already made good use of the flexibility it enjoys for dealing with simple or complex monopolies. In most cases, the aim is to promote competition, the consumer's best guarantee against excessive prices and poor quality goods and services. Anti-competitive practices can be forbidden, with the Office of Fair Trading (OFT) enforcing undertakings. The Monopolies and Mergers Commission (MMC) can recommend divestment by company under investigation to improve competition. Occasionally, as in the investigation of the brewers, the MMC report may propose restructuring the industry - though rarely on the scale of anti-trust actions in the US, where large companies have been divided into several smaller companies.

These remedies often work slowly, especially where the aim is to reduce barriers to entry - attracting new competitors can take time. It is this which has led Sir Bryan to ponder whether lessons could be learnt from the experience of regulating the newly privatised utilities, where regulators have taken an increasingly tough stance to curb abuses of monopoly power.

Past successes

For example, British Telecom was until privatisation a monopolist in the provision of UK telephone services. Rather than go for divestment, Sir Bryan as regulator forced BT to open up its network to competitors such as Mercury. He also required the company to disaggregate its various businesses to eliminate cross-subsidy. Similar approaches have been taken by other regulators. British Gas has had to make it easier for independent suppliers to sell gas, for example. And the electricity industry was restructured before

Mr Helmut Schlesinger, the Bundesbank's doughty president, insists that the German economy is not in recession, but it is far from blooming. The collapse of the east German economy makes prolonged stagnation unacceptable. Yet even if there are good reasons for these decisions, appearances matter too. The Bundesbank appears to have bowed to political pressure and not even from domestic politicians, but from France, the UK and Italy. Its dented image will make the Bundesbank even more determined to nurture the credibility it retains.

Question of time

It may take either another currency crisis or a steep decline in German monetary growth to persuade the Bundesbank to lower interest rates again. German interest rates may have passed their peak. But they are likely to be cut slowly, leaving German short term interest rates close to their all time highs for quite a while.

The question now is for how long the ERM will stay out of the crisis zone. Sterling managed a 2 1/2 pence gain on the day, helped by the decision to cut the D-Mark, but it is in the firing line. Ultimately, its fate will be decided by whether the present parity seems compatible with recovery. If the prospect remains remote, a downward spiral of credibility could force a larger yield gap over the D-Mark, further undermining chances of recovery.

More imminent still is the French referendum. A No vote is bound to encourage speculators, especially after the huge gains that have been made in speculation against the lira. But a marginal Yes might not settle the matter. The prospect of a long, doubtful and controversial journey to economic and monetary union would hardly ensure the stability of the ERM.

The Bundesbank has been seen to blink. That is bound to be costly to its credibility. But the Bundesbank will not pay the price alone. Other Europeans will pay too, as it struggles to restore what has been weakened in recent years - its reputation for preserving the value of German money. Governments have also blinked. With the ERM adjustable once more, the devaluation is not the end of the excitement in the European currency markets.

privatisation to create competition in generation between existing generators and to encourage new entrants.

Sir Bryan particularly highlights the lessons which can be learnt from the experience of price capping the utilities. Their price rises are limited to a percentage each year related to the retail price index (RPI). Thus from next year, BT is to be limited to RPI minus 7.5 per cent which, with inflation at present rates, means price cuts. Water companies have more complex formulae which allow for real price increases, with the scale related to the amount of investment required by each company to meet environmental and other objectives. Where it was difficult to encourage competition, such controls offered an alternative option to hold down prices and force up efficiency for the consumer's benefit.

Last resort

Regulation of prices by the competition authorities is nothing new, however. As Sir Bryan points out, seven cases referred to the MMC since 1970 have led to direct price controls, including the price cuts on tranquillisers in 1973 and on contraceptive sheaths in 1975. More recently, Swedish Match was required to freeze match prices for two years, in addition to giving other undertakings.

Nonetheless such remedies should be used only when there is very little hope of encouraging competition, not least because they may make it harder for competitors to enter the market. Sir Bryan's success in capping BT prices has undoubtedly been welcomed by the consumer. But lower prices make it harder to tempt new entrants into the market, especially when they must compete against BT with all the economies of scale which the former nationalised company enjoys.

Sir Bryan is to be commended for highlighting the innovative approach taken by the utility regulators. But the regulators have not yet succeeded in breaking the effective monopolies of the former nationalised industries. The promotion of competition is the most powerful weapon at his disposal at the OFT, and there is little so far to learn on this from the experience of the utilities.

A small step towards better European co-operation

The European Community's exercise in monetary crisis management clears up some of the short-term obstacles on the road to economic and monetary union (Emu). But, underlined by the nervous mood on the foreign exchanges after yesterday's Bundesbank interest rate cuts, the breathing space may prove limited.

In acting decisively to arrange the European currency realignment, the EC has tried to surmount the present period of doubt over its political and economic objectives. Germany took the initiative, with Chancellor Helmut Kohl personally involved in crucial talks with the Bundesbank last Friday. The outcome of the French referendum on the Maastricht treaty - and the course of European co-operation - remains on a knife-edge.

The adjustment in the European Monetary System (EMS) was an attempt to show that European governments can still co-operate - and not drift apart in the face of political and economic instability in both halves of the continent.

By explicitly forcing the Bundesbank to look beyond its borders in framing monetary policies, Europe's finance ministers have chalked up a sizeable victory - and have also set an intriguing precedent for the development of Emu.

Europe's economy is weathering a phase of slow growth, high interest rates and mounting unemployment, adding up to one of the most exacting challenges for economic management since 1945. Yet governments are trying to win support for a treaty on political and monetary union which seems likely to impose further economic sacrifices in pursuit of the Maastricht goal of irrevocably fixed exchange rates by the end of the decade.

The weekend EMS bargaining, under which the Bundesbank traded a cut in interest rates for a lira devaluation, was hailed in Brussels yesterday, perhaps optimistically, as the first step towards a new European economic order. An alternative view came from a leading banker in Frankfurt who said that, in orchestrating the lira devaluation, the Bundesbank had been a victim of "hysteria" engendered by unprecedented currency inflows of DM24bn into Germany last week.

The statutorily independent Bundesbank normally takes international factors into account in framing its monetary policies. But never has it bowed so dramatically and so overtly to pressure from European governments for lower borrowing costs.

One leading Commission official claimed that the Community had now moved into a new phase of monetary collaboration which put it firmly on track for Emu. "The road will be very difficult," he said, "but this shows that governments can co-operate."

The German government, which has been increasingly irritated during the past two months by the central bank's tight monetary policies, played a significant part in steering through the weekend move.

Bonn took the initiative for two reasons. Relaxing the Bundesbank's credit restraints counters the risk that the present period of German economic stagnation will turn into full-scale recession. Additionally, Mr Kohl, worried about the consequences of a No vote next weekend, badly wanted a signal that his country fully backed the cause of European integration.

Yesterday's reduction of only 1/4

Helping others help themselves

Lionel Barber and David Marsh on the weekend's currency manoeuvres

point in the Bundesbank's internationally significant Lombard rate underlined the grudging nature of its response. Mr Hans Tietmeyer, the Bundesbank vice-president, stressed the bank's move was a sovereign decision. More important, German financial markets are now convinced that further Bundesbank rate cuts will be in store in coming months.

As the debate intensified yesterday on the reasons for the Bundesbank's volte face, the foreign exchange market was struggling to make up its mind about the longer term impact of the move. Four principal questions arise, both on the immediate future of the EMS, and on the prospects for Emu.

First, now that the most pressing source of EMS instability - the weakness of the lira - has been defused, there is a risk that speculative pressure will turn to other vulnerable currencies.

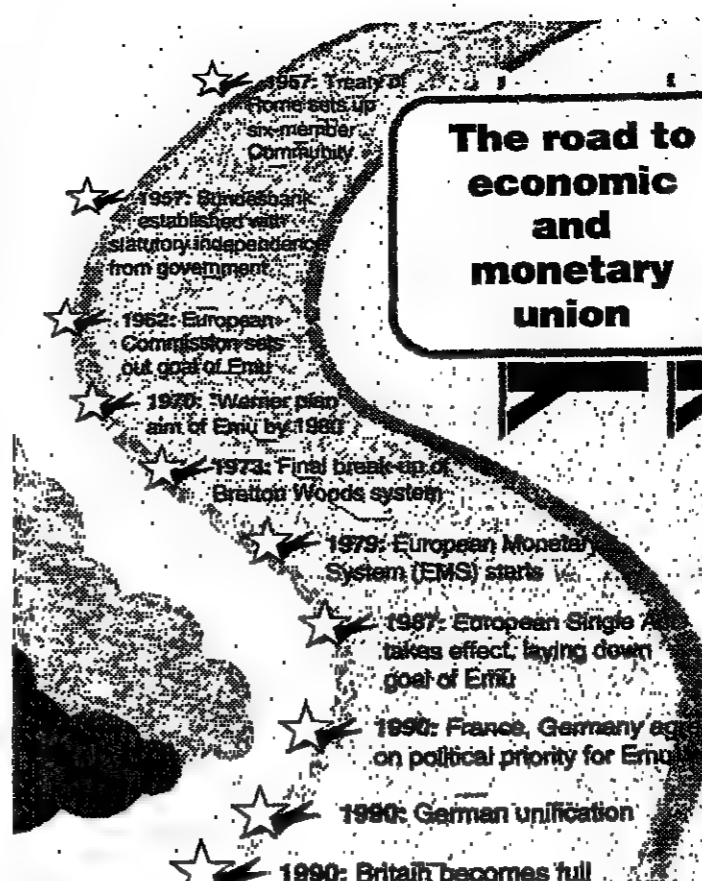
Sterling, still jittery yesterday, is the most likely focus of attack, followed by the escudo and peseta. These are all currencies which have become full members of the EMS during the past three years. They benefit from wider 6 per cent fluctuation margins and have not yet gained the policymaking credibility accruing to the members of the system's "hard core".

The Bundesbank has made little secret of its feeling that sterling could be a devaluation candidate. One "hard core" European central banker argued yesterday that the realignment has done little to correct basic EMS disequilibrium. Britain, he said, might still have to take tough interest rate action to win the trust of the markets. "The Germans have gone out of their way to help others. But now the others must help themselves."

Second, doubts over whether the EC can generate the economic growth necessary to forge a political consensus for Emu remain as strong as ever. The 1/4 point cut in German interest rates, by itself, represents no more than a weak ray of light in Europe's gloom.

All EC governments are trapped in an economic vicious circle under which faltering growth drives up budget deficits through reducing tax revenues and increasing social security outlays. The strict budget deficit targets laid down at the Maastricht summit as conditions for Emu membership looked difficult to meet nine months ago for most EC countries. Now, with EC growth at only 1 1/2 per cent, fulfilling the targets will be impossible unless the EC rediscovered 3 per cent growth.

Significantly, most European governments and central banks were taking a highly cautious line yesterday following the Bundesbank's



interest rate reduction. Dashing expectations that the Bank of France would lower rates this week to rally support for a Yes vote, Mr Michel Sapin, the French finance minister, made clear that any credit easing would have to wait until after the referendum.

Third, even assuming France approves the Maastricht treaty, considerable hurdles remain along the Emu path. The embargo caused by Denmark's rejection of the treaty in June still has to be solved. In addition, during the period before the target date of 1997-99 for the final stage of Emu, considerable tensions are likely over interpretation of the Maastricht criteria for economic

performance, according to a European ambassador in Brussels. "This official predicts aggressive German insistence that there is no 'fudge' on convergence. This process could lead to Italy, as well as other countries outside the 'hard core', being left out. Inevitably, this creates the risk not simply that European integration will proceed at two speeds, Europe itself could divide between a prosperous north and a poorer south."

Fourth, the spectacle of the Bundesbank being subjected to overt political arm-twisting could have an important impact on the German debate over the Maastricht treaty. Chancellor Kohl has declared him-

self ready to abandon the D-Mark in return for European union. But the strains of unification have made the public wary about ceding control over the currency which has served as the bedrock of post-war stability.

Mr Kohl has insisted that the planned single European currency must be run by a European central bank as independent as the Bundesbank. President François Mitterrand outlined a contrasting view 12 days ago, by affirming that the European central bank would execute policies laid down by European governments, not the independent "technicians" on its council.

The weekend's manoeuvres, heavily criticised by many commentators in Germany yesterday, are likely to heighten fears that politicians will run the bank - and that German voters will be swapping the D-Mark for inflationary "Esperanto money".

These concerns are bound to influence the conditions likely to be applied by the German parliament to the treaty as part of the ratification process later this year. Already, the two German chambers appear likely to demand a right of approval for the final stage of Emu before exchange rates can be finally fixed - a condition which could torpedo the Emu timetable.

In the financial markets, timing is everything. This axiom takes on particular significance when applied to a process as fraught with complications as the march towards Emu. The weekend move came at a crucial time to influence the French vote - but it could also misfire.

One risk is that the realignment did not go far enough. Critics on the financial markets yesterday argued that the weekend deal will probably leave nobody happy. The Bundesbank, they argue, has lost domestic credibility, while the interest rate cut will not be sufficient to restore European growth.

German officials have hinted that the Bundesbank could have decided a greater rate cut if more countries had devalued. But the insistence of France and, above all, Britain, to keep their currencies unchanged against the D-Mark made this impossible. "Europe missed the opportunity for a much further-reaching realignment which would have provided the growth needed to fulfil the Maastricht targets," said a London currency analyst.

The currency pact may indeed vindicate Mr Mitterrand's decision to call a referendum. But officials in Brussels, and in chancelleries around Europe, yesterday were still highly cautious about predicting which way the French would vote. If the result is Yes, the governments and central banks which stage-managed the weekend changes will congratulate themselves on a coup which tipped the scales in favour of European union.

If the French reject the treaty, the Emu timetable will be dead - but Europe will still face the challenge of managing an exchange rate system prone to disorder. That system is at present effectively run by the Bundesbank - a position which Germany itself concedes is politically undesirable.

Finding a form of monetary power-sharing between the Bundesbank and the rest of Europe will remain a central preoccupation, whatever happens on Sunday. The currency accord, for all its imperfections, could provide a glimpse of how Europe could struggle towards that difficult goal.

Joe Rogaly

What makes Paddy run



When there is no obvious difference between parties, voters are moved by the personalities of the politicians who lead them. That is the theory. It is the great hope of the Liberal Democrats. Their leader knows how to get his name in the papers. Yes, I refer to Mr Paddy Ashdown. The Liberal Democrats would not have attracted nearly a fifth of the vote in April without him. He is the nearest thing to a temporary British politician has to a character, a bit of a card, a likely lad. He obliges us to watch him, if only out of the corner of an eye. He has little choice. If he were to vanish, his party, which he has built up from nowhere when he became leader, might vanish too.

Much the same was said about most of his predecessors. Lord Grimond had an attractive, no-nonsense appearance, although it did not do the Liberals much good. We will pass over Mr Jeremy Thorpe. Sir David Steel understood how to make himself well-known. So did Lord Owen. The history of the latter pair makes my point. Their unwillingness to share the limelight was a principal cause of their failure to capitalise on their capture of it. As the Green party discovered last week, small parties cannot hope to prosper without leaders who can attract attention by the force of their individuality.

You may say that this has always been true, but today it matters more than ever. The three national parties in Britain all favour broadly the same economic strategies. They support membership of the European Community and, if it ever comes into being, the European monetary union. All stand by the party of the pound selected by Mr John Major when Britain joined the exchange rate mechanism in Octo-

ber 1990. Just at the moment all are uttering similar platitudes in response to the weekend devaluation of the lira and yesterday's reduction in German interest rates. All are impaled on the hook of waiting to see what the French voters do next weekend.

As to ideology, all embrace capitalism, albeit with varying degrees of enthusiasm. Not one of them proposes an extension of state ownership of industry. Labour leans mildly towards support of the detaching working class, while the Conservatives lean the other way, but with every year that passes there is less in it. The Liberal Democrats, gathered in Harrogate this week, are seeking new, non-aligned voters. They are devoted to the process of non-aligning themselves. They are iron filings waiting for a magnet to attract them.

His is an act that depends upon energy. He is like the performer who never stops buzzing

Which party should the voters pick? The personality of the prime minister must have had a great deal to do with his election victory in April. The electorate rather likes the straightforward, unassuming Mr Major. He may be a raving fanatic about the exchange rate, but it hardly shows. The new leader of the Labour party, Mr John Smith, appears to have taken a vow of silence. We must give him time in which to work himself into his job - perhaps until the party conference at the end of the month or, possibly, until next year's conference. He will have to do something about Mr Brian Gould and other dissidents within his ranks, but the answer to the big question - what on earth is Labour for? - is not one

he is going to hurry over. Yesterday's meeting of his party, at which a first-look paper on policy was to be debated, was but a beginning.

Thus the stage has been left empty, and Mr Ashdown has characteristically seized the opportunity to prance about on it. His is an act that depends upon energy. He is like the music-hall performer who never stops buzzing. He sings, dances, plays musical instruments, turns cartwheels, juggles, tells jokes, performs magic tricks. During the summer he captured the headlines, over Bosnia, the recall of parliament, the state of the economy and much else. Over the next few months he will make forays into city centres and elsewhere, to live a few days at a time with "ordinary people". No press, no photo-opportunities, he says - but we all know that the experience will become part of his curriculum vitae. He will be able to speak of Sarajevo and Solihull with "direct knowledge".

What he cannot bear to do is what he knows he must: sit and wait for Mr Smith. When Labour is ready it will be time to establish whether there is at last to be a pre-election Lib-Lab pact, or whether the two opposition parties will, once again, knock one another out. What is meant by "ready" is the subject of constant debate behind the scenes in Harrogate. At the least Mr Smith is expected to favour proportional representation for election to the Commons; at the most joint positions on a wide range of policies would be demanded. Alternatively, Labour might start, albeit slowly, to fade away. The Liberal Democratic viewpoint is that there is still all to play for.

Thus all Mr Ashdown wants this week is for his party to put itself "in a state of grace," under an unfeathered leader, so that he may take such chances as crop up. He will have that. It is what makes him run so hard.

GREEK EXPORTS S.A. ANNOUNCEMENT OF A PUBLIC TENDER FOR THE HIGHEST BID

GREEK EXPORTS S.A., registered in Athens, (17 Pansophion Street) and legally represented, in its capacity as liquidator, in accordance with article 46a of Law 1892/1990, supplemented by article 14 of Law 2000/1991,

ANNOUNCES a public tender for the highest bid for the purchase, in toto, of the assets of HELLENIC TEXTILES S.A., registered in Athens at 13 Amerikis Street, the factory is situated at 54 Kifissou Avenue near the crossroad with Lenormand Street, the industrial complex has been built on a plot of 31,511 m² in area and the buildings stand on an area of 9,583 m² of the plot while the total covered area of the complex is 28,412 m².

TERMS OF THE TENDER
1. For this purpose, interested parties are invited to receive from the liquidator the Offering Memorandum and submit a sealed, binding offer to the notary public appointed to the tender, Mr Panayiotis Spyridonos Strassimopoulos, nee Panayiotou Efathion, 71-73 Academias Street, Athens, 7th floor, tel. 30-1-361.1965 up to 6th October 1992. Bids must be submitted in person or by a legally appointed representative.

2. The bids will be unsealed before the above notary on 8th October 1992 at 1000 hours with the liquidator in the presence of the bidders who have submitted their offers within the prescribed time limit may also attend. Bids submitted beyond the prescribed time limit are not accepted and will not be considered.

3. The sealed offers must clearly state the purchase price offered for the assets, in toto, of the company, and must be accompanied by a guarantee from a bank legally operating in Greece to the amount of a hundred and fifty million drachmas (150,000,000 drs) or its equivalent in US dollars (U.S.\$).

4. In the event that the highest bidder fails to appear and sign the relative sales contract within thirty (30) days from being invited to do so by the liquidator, or fails to abide by the obligations accruing from the present announcement, the above amount of one hundred and fifty million drachmas (150,000,000 drs) deposited in guarantee, is forfeited in favour of the liquidator to cover all expenses of any kind and time spent, and any actual or hypothetical loss, without any obligation to give an account or consider it has been forfeited as a penalty clause, and collect it from the guarantor bank.

5. Guarantees deposited for participation in the tender are returned to the other participants after the evaluation report has been approved and the adjudication to the highest bidder has been ratified by 51% of the creditors.

6. The highest bidder is the person whose offer has been so judged by the liquidator and approved by 51% of the creditors as being in their best interests.

7. The liquidator has no liability or obligation to participants in the tender, both with regard to the drafting of the evaluation report and to the proposal of the highest bidder. Also, the liquidator is not liable and has no obligation towards participants in the tender in the event of his cancellation or repetition, if the results should be deemed unfavourable by the creditors.

8. Those taking part in the tender and submitting offers do not acquire any right or claim accruing from the present tender or the adjudication to the highest bidder, against the liquidator and the creditors for any reason or cause.

9. Transfer expenses (taxes, stamp duty, notary and mortgage fees) and other expenses for drafting topographical plans in accordance with Law 65/1977, etc. are borne by the buyer.

10. Given the fact that the Court of Appeal's decision calls for the liquidation of the company while "it is operating", it is hereby made known that the company's assets will be transferred to the highest bidder and his stand and as depicted in the company's books on the day the sale contract is signed. It is reminded that in accordance with the provisions of paragraph 4 of article 46a of Law 1892/1990, supplemented by article 14 of Law 2000/1991, interested parties can have access to any information they may require on the company for sale.

For any information, interested parties can apply to: a) The Head Office of ETBA S.A., Directorate of Participations, Tel. 30-1-928.4395 & 30-1-324.4396.b) GREEK EXPORTS S.A., Tel. 30-1-324.3111 to 324.3115 GREEK EXPORTS S.A.

Call for fresh appraisal of Maastricht treaty

PERSONAL VIEW

Ratify, then modify

By Carlo De Benedetti



De Benedetti calls for greater flexibility in treaty

As an entrepreneur who has always sought to contribute to the construction of an integrated, competitive Europe, I am alarmed by the current crisis in the process of European unification.

I am chairman of an industrial group that has always taken a European and international perspective in conducting its activities. I have made great efforts to help remove the many barriers that divide European markets and create a truly integrated European system.

The process of Europe's integration now seems to be grinding to a halt. The enthusiasm generated by the drive for European economic and monetary union, the fall of the Berlin wall and the opening-up of east European markets has been overtaken by a wave of Euro-pessimism.

The change in mood is reflected in Denmark's rejection of the Maastricht treaty, the uncertainty over the French referendum on Sunday and in the growing conflicts of interest among Community members, which have been aggravated by the recession in many economies.

A Yes vote in the French referendum could restore faith in the process of integration. If I were a Frenchman I would vote Yes. A truly European unity, supported by a common political structure, is essential if the Community's member states are to play an active role in today's increasingly unstable world.

A No for Maastricht would be an enormous setback. But we have to make Europe possible. This means facing the fact that some of the conditions of the treaty actually make Europe impossible.

No one would deny that significant changes have taken place in the economic and political climate this year, not just in Europe, but throughout the world. The guidelines and timetables for monetary and economic convergence laid down by the treaty have to be adjusted accordingly, or the whole edifice could collapse.

First, the world economic situation has changed. For years, our main worries were recession or an inflationary explosion. But the problems have changed. With the price of property shares and many industrial goods falling, deflation - not inflation - has become the real enemy, and this could lead Europe into depression.

The US has thus been applying reductionist monetary and foreign currency policies for months. But recovery is still a long way off. US deflation has deep economic and social roots, and will be difficult to eradicate because the range of

cures available is limited. Expansionary fiscal policies are not an option because the budget deficit is at an all-time high.

A second big change is in Germany. The costs of reunification are rising daily. The 1990-91 consumer boom awakened fears of inflation, something that has always terrified the German authorities. They responded in July by raising the discount rate, a move designed to brake internal demand, attract foreign capital and unload some of the costs of reunification on to Germany's neighbours.

Only now are many distinctions

tem - and specifically, the devaluation of the lira - in part reflects the severe problems which have plagued the Italian economy for years. While there is no doubt that Italy is the weakest link in the EMS chain, the high level of real interest rates, imposed as a consequence of German unification, will soon become unsustainable for other European countries as well.

The small cut in interest rates which the Bundesbank made yesterday is far from consistent with the deflationary environment which the world currently faces and far from consistent with the recession

The guidelines for convergence laid down by the treaty have to be adjusted, or the whole edifice could collapse

guished votes, both inside and outside Germany, beginning to realise that the country has gone into recession, that deflation and depression are the real dangers, and that the rigid monetarist approach of the Bundesbank has actually harmed the German economy. Weak international economic conditions and the slide of the dollar - with its impact on European competitiveness - have made Germany policy an unbearable burden for the rest of Europe. An urgent review of German and European monetary policy is therefore necessary. The immediate goal is to avoid depression, not to bring about a quick return to growth.

This weekend's realignment of the European Monetary Sys-

tem which is quickly spreading throughout Europe, including Germany.

A third significant change in the economic climate has been the dramatic situation in eastern Europe. The slowdown in growth in the west has clearly amplified the crisis in the east. Shrinking markets for eastern exports have slowed the flow of western capital (direct investments and loans) to the east, and have exacerbated political disruption, particularly in the Balkans.

We cannot ignore these changes. Ratification of the Maastricht treaty is vital to keep the idea of European union alive and prevent a return to national chauvinism. But adjustments reflecting the changes in the international

climate must be made if the treaty is to become an instrument for growth and a project which the governments and citizens of Europe can regard as their own.

The treaty was geared to an economic growth scenario which assumed the persistent threat of inflation and a strong dollar. This is why its guidelines for convergence basically require a deflationary approach.

Last year the treaty, as it stands, offered an effective means for stimulating growth. In the current conditions, it has become a perverse mechanism pushing Europe towards depression. The convergence guidelines have to be rethought; they must provide greater flexibility and cater for national differences. A drastic deflationary policy in one country must not be allowed to limit growth in the whole of Europe.

The launch of the treaty's second phase, which would create the European Monetary Institute - a forerunner of the European Central Bank - should be brought forward. The Institute should also be given greater powers to monitor monetary harmonisation and review convergence targets.

Finding the technical solutions to make convergence a more flexible process is a job for the experts. But the solutions they define should not underestimate the difficulties of reviving the European economies nor cause an uncontrollable acceleration in current deflationary trends.

The rise in European tensions in the wake of the dollar's recent slide shows that the process of European monetary integration must be part of a wider co-operation agreement between the Community and the US. In the past few months, co-operation on monetary policy has been nearly non-existent.

Finally, the process of European integration cannot ignore the problems of the east. The issue here is not so much to negotiate the future EC membership of the east European countries as to take decisive action to open up western markets to eastern goods.

This step is bound to create difficulties, but it is necessary to slow down immigration from the east and break away from the narrow political vision of European Union as an elite club for top performers. For all these reasons, it is my belief that while ratification of the Maastricht treaty by all the EC countries is necessary, a review of certain conditions for union is equally vital. We must approve Maastricht if we want to modify it.

Ratification and modification are not incompatible; on the contrary, they are two essential steps for the relaunching of Europe.

Carlo De Benedetti is chairman of Olivetti.

Why mortgage rates and pasta might be cheaper

Peter Martin answers questions about the impact on the UK of Italy's devaluation and Germany's interest rate cut

Q. What does this mean for my mortgage?

A. UK interest rates are now less likely to go up than they were before the weekend. But only a little bit less likely, as sterling still remains weak and interest rates have to be kept up to protect it. The chances of a UK interest-rate cut in the immediate future do not look high - but the next move in mortgage rates is now more likely to be down rather than up, and there's an outside chance that they'll be lower before Christmas.

Does Italy's devaluation make it more or less likely that Britain will follow suit? By itself, Italy's devaluation would have made it more likely that sterling would eventually have followed the lira down within the ERM. Once the markets sent blood, they are merciless. Germany's interest rate cut, though, more than offsets that psychological impact. The direct effect of lower German rates is to make holding sterling marginally more attractive than it was before. The indirect effect is more powerful; by signalling that German interest rates are now past their peak, it breaks a vicious cycle of expectations. Why was the Bundesbank rate cut so small?

It was a grudging gesture by a group of men under pressure. The Bundesbank had made it clear that it wanted to wait until German inflation was really beaten, some time next year, before cutting interest rates. Mounting political pressures - from Bonn, from Brussels, and from the other 11 capitals of the community - would probably not have been enough to make Buba budge.

But by Friday, with the Bank of Italy running out of reserves and the onus increasingly shifting to Germany to prop up the lira, the Bundesbank was running out of options. It could have pressed for a lira devaluation without an accompanying cut in D-Mark interest rates, but that would have given fresh ammunition to the No camp in the French referendum debate.

It would also have left the lira (and sterling) exposed to further selling pressure by speculators who thought the Italian gesture wasn't enough, and that would have left the Bundesbank back where it started.

What is the outlook for sterling? It closed yesterday at just about DM2.81, two pence less than it was before people learned how small the German interest-rate cut was, two pence less than it was on Friday. It's now three pence less than it was before the weekend.

That's a comfortable margin, but another bout of bad news about the UK economy, or any indication that the Bundesbank is having second thoughts about lower interest rates, could nail it to the floor once more.

Nonna Lamont, UK chancellor of the exchequer, is likely to want a period of stability at or above the pound's current levels before cutting interest rates - and he may let other countries, such as France, take the plunge first. France has indicated that a cut is likely after the Maastricht referendum.

position in the lira will have made a profit. That includes anyone who's been delaying paying a bill in lira to an Italian company, and it includes Italian companies that had shifted any spare funds into D-Marks or Swiss francs. Of course, it also includes the big players in the currency markets, the banks. Other winners include investors whose portfolios of shares or bonds are worth a bit more after yesterday's lukewarm rally. In the UK, that mostly means the funds in which our pension money is invested, and the insurance companies that invest our endowment policy premiums.

Should I take a winter break in Italy? Will pasta be cheaper in the supermarket, flats cheaper at the garage? Because Italy's inflation rate has been higher than that of its neighbours, it's been a very expensive place for holidays. It's now a bit less costly - but economists reckon a 15 per cent devaluation would have been needed to bring Italy's costs in line with those of other European countries. That means it's half as over-expensive as it was. The cost of Italian goods in British shops will depend on the pricing policies adopted by the people who make and import them. Over time, they'll probably be less expensive than they might otherwise have been.

Do events mean that the £2 pound was with us as fleetingly as the English summer? The pound/dollar exchange rate is now the result of two calculations: the pound/D-Mark rate and the D-Mark/dollar rate. In the first of these, the pound has strengthened very slightly. In the second, the D-Mark has weakened noticeably, and will drop a lot more once the markets think German interest rates are really moving down a long way. Given the Bundesbank's view of the world, that will not happen for some time. The £2 pound may have gone for the moment, but the bargain-basement dollar is with us for some time to come.

Was this a success for the ERM or a failure? It was a success for the way the ERM was originally supposed to operate - a relatively smooth downward adjustment of a currency under pressure. It was a failure for the recent view of the ERM as a sort of dress rehearsal for monetary union, in which parity changes were to be avoided at all costs.

Anyone who had a short

ter? Even if the French vote Yes, will we be back in the same situation in a few weeks? If France votes No, this weekend's excitement won't help much. The lira will again come under pressure, and so will other weaker currencies such as sterling. Ministers and central bankers will find themselves back in the same week-end crises. If France votes Yes, the underlying problems won't go away. Italy will still have to cope with its budget deficit; the UK will still have to find a way out of recession; the tension between the dollar and the D-Mark will still spill over into the ERM. And everyone will be waiting for the next German interest rate move.

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Fujimori claims Shining Path arrest justifies tough policy on terrorism Peru puts rebel leader on parade

By Sally Bowen in Lima

FLABBY, middle-aged and bespectacled, wearing a prisoner's identification tag, the leader of Peru's feared Sendero Luminoso guerrillas has been paraded on Peruvian television in a bid to destroy the aura built up around him during 13 years in hiding.

President Alberto Fujimori went on television personally to present the images of the Latin American continent's most wanted and feared insurgent.

Mr Abimael Guzman Reynoso, alias "Presidente Gonzalo," was captured in a counter-terrorist police raid on a Lima suburban house on Saturday night. His detention, along with several other high-ranking members of Sendero Luminoso (Shining Path), is an important success for the Fujimori government — and one of the few bits of good news for Peru since the April 5 institutional coup when Mr Fujimori dissolved congress and suspended the constitution.

Mr Guzman's capture enabled the president to justify his tough and much-criticised counter-insurgency policy, and to repeat his determination to defeat Peru's terrorist groups before 1995 when his term of office officially ends.

Popular mythology had attributed Mr Guzman with almost magical powers to move around Peru unseen. A home-made video, shot over three years ago, had provided the only previous

dent in the guerrilla leader's image — it showed him inebriated, carousing with followers and dancing to the music of "Zorba the Greek." On Sunday's broadcast, he appeared flummoxed with his trousers buttoned after being told to take off his shirt, apparently meekly obeying police instructions.

"This is not the revolutionary hero fabricated by myth," Mr



Sendero Luminoso founder Abimael Guzman, seen on Peruvian television in a Lima jail

Fujimori said in his Sunday night address, dubbing Mr Guzman "sinister, malevolent... a diabolic genius... the henchman of the drugs trade."

Mr Fujimori accused the guerrilla group, which has waged 12 years of political warfare claiming more than 25,000 lives, of accumulating vast funds through the cocaine trade. It had used the money to finance "Sendero ambassadors" in European countries, including Britain, France, Belgium, Spain and Sweden, he said.

Sendero's leader, like other Peruvians now under arrest on charges of terrorism, will face

summary trial by military tribunal. Modifications to the penal code following a series of Sendero car-bomb attacks in July mean terrorists are now considered "traitors to the fatherland" and face life imprisonment.

The prospect of a lifetime jail term for their leader, widely recognised as a great military strategist, is a heavy blow for Sendero. But the movement, according to Mr Enrique Bernales, former president of the Peruvian senate commission on violence, is "a Maoist, clandestine party with a quasi-military structure. They must already be activating contingency plans of

tactical retreat and reconstruction."

The armed forces and police are braced for a violent response from the guerrillas. Security measures have been stepped up in the capital and many recently withdrawn tanks repositioned outside potential target buildings.

But Mr Guzman's capture seems to have created, however briefly, some desire for unity in a nation deeply divided by racial, class and income differences. Some prominent politicians previously hostile to Mr Fujimori's de facto regime are now calling for "national reconciliation."

THE LEX COLUMN

Quarter measures

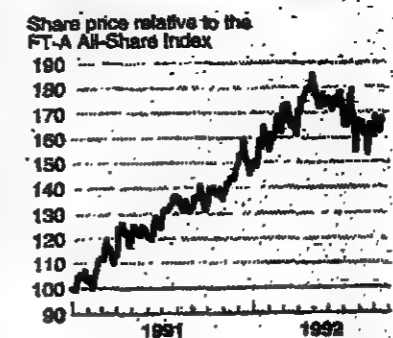
So there it is. A quarter point cut in the German Lombard rate was less than many in the financial markets had hoped. The Bundesbank's move looks a little less niggardly when the half point cut in the discount rate is taken into account — not to mention the repurchase operation announcement which has taken a similar amount off short-term money market rates. But the overriding impression is that it acted only with considerable reluctance. In the end, the rate cut may have been the inevitable price for a deal to stop the run on the lira which had cost it DM24bn in intervention last week alone. Had intervention continued at that rate, it was bound to knock money supply growth further off course.

By announcing Germany's intention to cut rates in advance, however, European finance ministers have made the Bundesbank vulnerable to suggestions that it has forfeited its political independence. That alone means the central bank will almost certainly want to restore its credibility. Barring a serious crisis in exchange markets, there seems little chance that it will cut rates again in the short run. Though the manufacturing side of the German economy is slowing, this is less true of the services sector. Money supply growth remains well over 5 per cent, and the government in Bonn still lacks firm control over its finances.

It is thus too early to declare a definitive end to strains in the ERM. The lira closed last night well below its new ceiling against the D-Mark. Sterling climbed only 25 pence despite support from the Bank of England. There still seems considerable risk of turmoil if this weekend's French referendum does go against the Maastricht treaty. Sterling might then turn out to be the exchange dealers' next victim. Doubtless the Bundesbank will then expect the UK to follow Italy's example in raising domestic interest rates before it looks to any help from Germany.

FT-SE Index: 2422.1 (+51.2)

Inchcape



terday's advance was pretty broadly based. Moreover there were some impressive gains in interest rate sensitive stocks, like RMC, and cyclical issues like British Steel, both of which gained over 5 per cent.

The market may also have been reluctant to ignore the positive signals from both continental markets and from Wall Street. To be sure, thinning trading volume suggests the higher prices lack conviction. But the implication is that equities are discounting a Yes vote in the French referendum. Price movements such as these hardly make sense while there is still a risk of a different outcome, and when some pretty grim domestic economic news looms later in the week.

Dalgety

Contrary to the uglier market rumours, Britain's food manufacturing sector does not appear to have collapsed in recent months. Like Cadbury and United Biscuits before it, Dalgety yesterday painted a picture of undeniably tough trading conditions — growing retailer power, choosy consumers and the like — but not of an environment in which good companies with decent brands and low costs cannot continue to thrive.

A 5 per cent increase in profits and dividends for the 12 months to June certainly underlines Dalgety's growing claim to a place in that league. Most impressive is the progress in consumer foods, where solid gains in market share more than offset a slight dip in petfood demand and Golden Wonder asserted its position as the number two in crisps. The difficulties in milling and baking are hardly of Dalgety's

making, while the lower gearing figure should be seen in the context of a net \$22m outflow for acquisitions. Better working capital controls saved £23m — and there is the promise of more to come.

Dalgety's shares have outperformed the sector by 15 per cent this year, an achievement which can largely be justified on superior earnings. The question is whether the stock deserves better than a forward multiple of just over 10 and a 5.7 per cent historic yield. Having approved the transformation from erratic, commodity trader to reliable plodder with predictable profits growth, the market remains rightly cautious.

But once the management succession is sorted out and the strategic direction refined, the shares should attract new support.

Inchcape

In these tough times it is rare to see a company in the car business increasing profits. True, the 26 per cent rise in Inchcape's interim pre-tax profits was largely due to the newly-acquired Tozer Kemaley & Millburn motor distributor, bought after a rights issue at the turn of the year. Also the earnings per share rise of 7.4 per cent is not as good as it looks because the TKM purchase was at a lower earnings multiple than the Inchcape rights. Sceptics might also point out that distributing cars is likely to remain a tough business for a while, and not just in the UK. Indeed, Inchcape's figures clearly show the booming Hong Kong economy has helped cover for difficulties elsewhere.

That said, the strong management team appears to be absorbing TKM well, and savings should flow as TKM and existing distributors are rationalised. At the end of the year the start of production at Toyota's Derby plant should increase sales through Toyota (GB), even though Inchcape's share of the joint venture will drop to 49 per cent by 1996 as Toyota takes control. While these developments will help profits, the market may remain cautious. The trend for car manufacturers to repossess their valuable distribution businesses — as Volvo did with Ler — must be worrying. The conundrum for business services firms, particularly those like Inchcape on a premium rating, is that as soon as they make a success of contracts, companies are tempted to do it themselves. That can make it a little hard to shine.

UK equities

Yesterday's 51-point rise in the London market looks odd if it is true that sterling is not yet out of the woods. The FTSE obviously derives benefit from the presence of some large overseas-earners which are banking in the disappearance of the two-dollar pound. Curiously, the All-Share Index forged a gain of 1.9 per cent, nearly as strong as that recorded by the FT-SE. So yes

Yugoslav peace talks under threat

By Frances Williams in Geneva and Judy Dempsey in Belgrade

HEAVY FIGHTING flared yesterday in the Bosnian capital of Sarajevo, besieged by Serb forces since April. The outbreak cast further doubt on plans for international peace talks to resume in Geneva on Friday.

Each side blamed the other for the worst outbreak of violence for several weeks and for attempting to wreck the talks.

At least four people were killed and 50 wounded, and reports from the city said that heavy artillery had been used, despite last weekend's agreement to put it under United Nations supervision.

Mr Ruzmir Jalic, commander of units loyal to the Bosnian government, said the old part of the city had been shelled, and mortars had fallen on the Holiday Inn.

Bosnian commanders reported that the suburbs of Hrasno, Breka and Bijelava were also under fire.

Mr Ermin Taric, a Serb and one of the Bosnian commanders in Hrasno, said Serb irregulars were trying to gain control of the suburbs by using tanks and the children's hospital had been shelled.

Before the upsurge in violence, Mr Alija Izetbegovic, the Bosnian president, had written to Mr Cyrus Vance, the UN mediator, to say his government would not attend the talks because of continued fighting.

Mr Radovan Karadzic, the Bosnian Serb leader, has also threatened to pull out of the talks if an air exclusion zone over Bosnia is imposed.

Mr Vance and Lord Owen, co-chairmen of the international conference on former Yugoslavia, are insisting that leaders of the three Bosnian communities attend crucial Geneva talks to discuss the future constitutional status of the country.

Mr Fred Eckhardt, spokesman for the two co-chairmen, said yesterday that on their visit to the region last week Mr Vance and Lord Owen had received "solemn,

personal and unconditional commitments" from all the warring parties that they would go to Geneva.

Mr Vance, who represents the UN, and Lord Owen, the European Community representative, "expect all sides to be present at senior level on Friday," Mr Eckhardt said.

Representatives of the three communities are due to meet UN officials in Geneva today to agree security and confidence-building measures that would permit a resumption of a UN airlift into Sarajevo. The airlift was suspended nearly a fortnight ago after the shooting down of an Italian transport aircraft, apparently by missiles, and food stocks in Sarajevo are dwindling.

Mr Eckhardt said UN monitors were stationed at 11 heavy weapons sites controlled by Bosnian Serbs around Sarajevo, in accordance with the agreement putting heavy weapons around four Bosnian cities under UN supervision.

There had been "some resis-

tance" by local Serb commanders to inclusion of 62mm mortars. This, and the status of heavy weapons near Gorazde, where Serb forces have lifted their siege, are now the subject of negotiations.

Mr Boutros Boutros Ghali, the UN secretary-general, has recommended the deployment of at least 6,000 more troops in the republic. Instead of concentrating on Sarajevo, their mandate would be extended to four or five other zones, covering several cities, including Banja Luka in the north, Mostar in the west, Foca and Gorazde in the east and Tuzla in the north-east.

UN infantry battalion groups would be located in each zone, and would have the right to defend aid convoys.

His recommendation, which is expected to be approved by the Security Council, would allow UN forces to establish regional storage facilities in these towns to facilitate a massive aid operation which is planned before the winter.

Scepticism and caution

Continued from Page 1

Mr Albrecht Schmidt, chief executive of Bayerische Vereinsbank, cautioned against euphoria, pointing out that economic and inflationary conditions had "not changed at all".

Mr Martin Hüfner, chief economist of the same bank, argued that if the Bundesbank was to retain its anti-inflationary credibility it would be able to cut rates further until the summer of next year at the earliest.

In France, where the central bank did not cut rates, the German move was nonetheless welcomed by leaders fighting for a yes vote in next Sunday's referendum on the Maastricht treaty. Mr Pierre Bérégovoy, the prime minister, said Germany had put the interests of Europe ahead of their own in a move that was a "great success" for Europe.

In Italy, reaction was mixed. Mr Gianni Zandano, chairman of the Istituto Bancario San Paolo di Torino, the biggest bank, said: "It would have made more sense if this realignment had been matched by important economic measures sufficient to redress our public finances", he said.

In the UK, the fevered enthusiasm of tabloid headlines which heralded a "stunning coup" for Mr Norman Lamont, chancellor of the exchequer, gave way to Conservative party grumbling that Germany's late cuts were not deep enough to help the ailing British economy.

Mr William Cash, a Conservative MP who is a vociferous critic of the government's economic policy, attacked the German move as "a cynical and cosmetic exercise".

"The fact is that it is not going to make very much difference. The real question which still remains is what is the impact of our being tied to the German economy when British jobs and massive unemployment and bankruptcies are effectively being orchestrated by a policy which is being made in Germany", he said.

Germany's move was warmly welcomed in the US, where the dollar recovered significantly from last week's lows. A senior US Treasury official said the rate cut was the "first step and a very important one in bringing down German interest rates and speeding up economic growth in Europe".

Germany's small rate cuts

Continued from Page 1

not expected any interest rate cuts until December at the earliest after the Bundesbank had constantly emphasised its determination to see annual inflation on the way down to 2 per cent and to rein back money supply expansion.

But the heavy inflows had put the success of its monetary policies at risk by adding to money supply growth, Mr Schlesinger said. The government had freed it from this "exchange rate trap" by agreeing to press for a realignment.

He denied that the bank had been forced into cutting interest rates, noting that past realignments had also been followed by such reductions.

Mr Hans Tietmeyer, the Bundesbank's deputy president, said attempts to engineer realignments since 1987 had always been blocked. He did not say by whom, but France has always set its face against any devaluation of its currency as part of such a move.

Mr Tietmeyer said the week-end's events showed that the EMS rules, providing for parity adjustments when necessary, still applied.

France, which like Britain has been under pressure to cut credit rates to boost the domestic economy, yesterday left its intervention rate unchanged at 9.5 per cent. Mr Michel Sapin, finance minister, said France would have to wait the referendum.

The lira shot to the top of the ERM currency grid from next to bottom on Friday evening, reflecting the impact of the devaluation. It closed in London at L753 against the D-Mark, having opened at 754.62.

In the UK, Downing Street put on a brave face in response to the small realignment in German rates. While admitting the move might be "a one-off", officials sought to portray it as the start of a trend towards lower interest rates throughout Europe and said there had been "a significant change of mood".

British interest rates would be set with a view to "maintaining our position in the ERM", they said. The probability of a realignment of the pound's ERM parity was "zero".

Mr Jim O'Neill, head of research at Swiss Bank Corporation in London, was incorrectly described as working for Citibank in some editions yesterday.

All of these securities having been sold, this announcement appears as a matter of record only.

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FLEMINGS
INTERNATIONAL INVESTMENT BANKING

September, 1992

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INTERNATIONAL COMPANIES AND FINANCE

Hoogovens to cut 15% of jobs at Dutch steel plant

By Ronald van de Krol
in Amsterdam

HOOGOVENS, the Dutch steel and aluminium group, is to shed more than 15 per cent of the workforce at its main steel production site in the Netherlands as part of a £130m (\$182m) cost-cutting programme to return the company to profitability in 1993.

The measures would produce "several hundred million guilders" of extraordinary charges in Hoogovens's 1992 accounts but the company said it should bring about a return to profitability next year.

By the end of next year, Hoogovens expected to have cut 2,300 jobs at its plant in IJmuiden on the Dutch North Sea coast, reducing the integrated steel plant's overall workforce to 11,500 people. The job cuts would be concentrated in non-production departments.

Approximately 1,000 of the

job losses will represent compulsory redundancies, the first in Hoogovens's 74-year history. Yesterday's announcement comes on top of an existing streamlining operation aimed at cutting 2,500 jobs from its total workforce of 26,875 through natural wastage before 1995.

Hoogovens, the seventh-largest steel producer in Europe, blamed the measures on the drop in prices for steel products, which it attributed to the low dollar. Increased steel capacity in western Europe, higher imports from eastern Europe and indirect government aid to competitor steel works in other parts of Europe. Sales of eastern European steel in western Europe are often the result of dumping prices, it said. Hoogovens posted a £149m net loss in the first half of 1992 and has predicted that results in the second half would be considerably worse.

Greek tourist group sells leisure facilities

By Kerin Hope in Athens

EOT, the Greek state tourist organisation, is to sell a hotel chain, six marinas and three casinos in the first large disposal of state-owned assets to be made in the government's two-year-old privatisation programme.

Other Eot properties to be offered for sale will include two golf courses, on the islands of Corfu and Rhodes, and a dozen campsites around Greece.

The Kenia hotel chain, with 50 properties, is to be broken up so that larger units in leading resort areas can be sold in a package with other assets, such as a marina, a privatisation official said.

The government has appointed Arthur Andersen, the international accountants, to carry out a review of Eot's assets and plan a strategy for

their disposal. Most of the hotels, leased to private Greek operators, run at a loss and are badly in need of refurbishment.

The chain's overall debts amount to Dr400m (\$2.2m). Eot holds a monopoly on marina and casino operations in Greece. Both are profitable, but considerable investment would be required to bring them up to the standards of similar facilities in the western Mediterranean, according to Eot officials.

At a later stage, another eight marinas still under construction will be offered for sale. Eot also plans to issue up to 10 new casino licences to private operators.

Meanwhile, the state-controlled Ionian Bank is seeking bids for the Athens Hilton, owned by its subsidiary, Ionian Hotels, and for a new Hilton nearing completion on Rhodes at a cost of Dr13bn.

Stena Line predicts return to the black

By Sara Webb in Stockholm

STENA LINE, the Swedish shipping and ferry group, said it was on course to make a profit of more than SKr250m (\$48.8m) in 1992, marking a recovery from last year's loss of SKr302m.

Mr Bo Lervén, chief executive of Stena Line, said he expected profits (after net financial items) to exceed SKr250m "provided the economic situation does not worsen still further during the autumn".

Stena Line swung to a loss of SKr302m in 1991 partly due to losses incurred by Sealink, its UK ferry operations. The group was forced to carry out a number of cost-cutting measures which included a pay freeze for Sealink employees in 1992 and the closure of its Folkestone-Boulogne ferry route.

Stena Line said the recovery in profits was due to the combination of the cost-cutting measures in its international operations and "the continued increase in volume so far this year for the entire group". The number of passengers travelling on Stena Line ferries has risen by 2 per cent during the first eight months of this year, and freight volume has increased by 8 per cent.

Dalgely profits rise to £116.8m

By Maggie Urry

A STRONG performance from Dalgely's consumer foods division helped the group to lift pre-tax profits to £116.8m (\$230m) from £110.9m in the year to June 30.

Mr Maurice Warren, chief executive, said trading conditions were tough, though he did not think they were worsening as some manufacturers have reported. He said the group was "set fair for 1993". It was seeking acquisitions in Europe, but Mr Warren said these were difficult to find at realistic prices.

Lex, Page 24

Partners reap the fruits of reconciliation

John Thornhill on the uneasy marriage that created Europe's largest packaging group

The brief history of CarnaudMetalbox, the Franco-British packaging company, has always been presented in terms of matrimonial analogies.

So it was three years ago when, after a brief flirtation, a marriage was announced between the packaging interests of Metal Box of the UK and Carnaud of France creating the biggest packaging company in Europe.

The doings parents claimed it was the fashion to get hitched in the rapidly-unifying European market place and held out great promise for the merger. But, sadly, it was not long before the two partners indulged in a series of tiffs culminating in last November's departure of Mr Jean-Marie Descarpentries, the chief executive, amid much national acrimony.

Mr Jürgen Hintz, a neutral German-American reared in the Procter & Gamble marketing school, was called upon to become chief executive. And less than a year into his job, the disarmingly open Mr Hintz appears to be making sense of the alliance having encouraged the two sides to make up.

The early fruits of the reconciliation became apparent last week when CarnaudMetalbox, initially known as CMB Packaging, posted a reassuring 9 per cent increase in interim net earnings to FF549m (\$115m) with operating margins widening from 9.1 per cent to 9.8 per cent.

Mr Hintz argues that, bar-

ring unforeseen economic difficulties, the company will continue its progress this year and finally begin to fulfil its early dreams.

Mr Philippe Lubineau, analyst at stockbrokers BZW Puget Mahe in Paris, believes he may be right and has upgraded his profits forecast to FF19bn for the full year representing a 17 per cent improvement.

CarnaudMetalbox has been one of the very few companies providing good news recently. But you have to pay for it in the price," he says, observing that the company stands on a multiple of 14 times next year's forecast earnings - a 30 per cent premium to the French market.

In spite of the progress that has been made, Mr Hintz argues that further financial benefits can still be squeezed from the integration process. "Frankly the company did not work very well when we merged. But the logic of the merger was absolutely right. Business is globalising faster in reality than perception," he says.

Although the media emphasised the national frictions between the two partners, Mr Hintz argues that greater problems stemmed from organisational differences. "On the one hand there was MB which was over-centralised in the classic British fashion. On the other, was the wild-eyed naïvely decentralised Carnaud. The difference in corporate culture was bigger than that between



Jürgen Hintz: barring unforeseen economic difficulties, the company will continue its progress this year

Frenchmen and Englishmen," he says.

"This issue has never been fully settled. But there is now a sense in the organisation that there has to be a better way of doing things than when we were like the old Carnaud or the old MB," he adds.

Greater financial benefits should stem from the further rationalisation of operational systems, he argues, as the disparate Carnaud operations are brought under central control. "We have 33 banks in France

and have to go through books of figures on a Friday night with a well-chewed pencil," Mr Hintz says exasperatedly.

Quick to demonstrate his impartiality, he also points out deficiencies in MB's former operations which spent 90 per cent of their research and development budget on plastics while 90 per cent of their business was still in metals.

CarnaudMetalbox highlights three strategic imperatives: to strengthen its European steel business through reaping fur-

ther economies of scale; to bolster its position in the beverage cans and plastics markets; and to grow its health and beauty business, making products such as lipsticks, compacts and mascara cases - by acquisition, if necessary.

The company believes it has great scope for geographical expansion. Although western Europe accounts for 85 per cent of sales, CarnaudMetalbox believes it can increase sales in Turkey, Asia, and particularly eastern Europe.

However, the main worry niggling investors is the long-term uncertainty concerning its shareholding arrangements with MB-Carnaud, the company's original parents, and the French investment group CGIP, still retaining their 25.5 per cent stakes.

Analysts suggest it would come as little surprise if CGIP were to increase its holding while MB-Carnaud reduced its exposure confirming the increasingly Frenchwards tilt in the company's outlook.

Any such move is likely to wait until the grim economic outlook desists. In the meantime, Mr Hintz will just keep on trying to improve the company's operational performance.

"I think the packaging industry is in a state of metamorphosis. In management and technological terms this industry feels to me like the 1970s. It is going to become a lot more sophisticated. We just have to hunker down and do the professional thing," he says.

Recticel offloads stake in foam unit

By Andrew Hill in Brussels

RECTICEL, the Belgian manufacturer of polyurethane foam, is to sell most of the rest of its 44 per cent stake in Foamex LP, its US subsidiary, for \$156m.

The Belgian company, which changed its name from Gechem in June, plans to sell 33.6 per cent of Foamex to its US partner, 21 International Holdings, at book value, in effect ending an ill-judged move into the US foam market. Mr Luc Vansteenkiste, chief executive, revealed yesterday

that "due to some new circumstances" the group was considering an increase in negative provisions in its 1992 accounts. He hinted that the write-offs - which would be announced with interim results next week - might be linked to environmental liabilities of companies which have since been sold.

The sale of the Foamex stake is conditional on 21 International raising the money through bank finance and the issue of high-yield bonds on the US capital markets.

The US group will also repay a \$15m loan to Recticel, bring-

ing the Belgian group's debt down to 140 per cent from more than twice shareholders' funds. A new capital injection of \$150m (\$100m) promised by June next year will reduce gearing still further, to about 60 per cent.

Mr Vansteenkiste, who inherited Foamex when he took over as Gechem chief executive last year, said yesterday: "The acquisition, as of last year, had not brought any money into the company, and we had to make a decision whether to continue or whether to stop."

Roquefort sale decision likely within six weeks

By Alice Rawsthorn in Paris

THE future of Roquefort, one of France's most famous cheeses, should be decided within the next six weeks when Nestlé, the Swiss food group, concludes negotiations to sell its majority stake in Roquefort.

Nestlé, which earlier this year acquired a controlling 57 per cent stake in Roquefort as part of its successful takeover bid for Perrier mineral water,

has been approached by a number of prospective purchasers including Beaulieu, Boursin, Entremont and Bel, four leading French cheese producers.

Unilever, the Anglo-Dutch consumer products group which is already a leading player in the European food sector, is also believed to have indicated interest in acquiring control of Roquefort, which is valued at between FF1.1bn (\$208m) and FF1.5bn.

Excellent first half for Fortis

Key figures Fortis 1st half year: significant growth

(in ECU million)	1992	1991	% increase
Total revenues	4,496	3,580	+25
Operating result	180	153	+18
Profit	198	177	+10
	30-6-1992	31-12-1991	
Equity	3,363	3,242	

* 1 ECU=0.71 Sterling

Key figures N.V. AMEV 1st half year

(in NLG)	1992	1991	% increase
Earnings per share	3.62	3.43	+6
Share price on 30 June	52.80	50.80	
Price/earnings ratio	6.7	5.5	
	30-6-1992	31-12-1991	
Equity per share	69.98	67.87	

* 1 NLG=0.31 Sterling

Prospects

Despite the recent sharp fall in the value of the US dollar, Fortis stands by its projection for the full year of an improvement in operating result and a slightly higher profit.

On the basis of Fortis's prospects, the Executive Board of N.V. AMEV expects earnings per AMEV share in 1992 to at least equal the 1991 figure.

Fortis: a united force in financial services

Fortis is an international insurance and banking group. Fortis' activities are widely spread, both geographically and in terms of products. Since its creation in December 1990, the group has implemented its strategy resolutely, actively exploiting new opportunities. N.V. AMEV is one of the two parent companies of Fortis.

We will be happy to send you a copy of the first half year report 1992.

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fortis

N.V. AMEV and AG Group
the two parent companies of Fortis

BSN GROUPE

INCREASE IN CONSOLIDATED NET INCOME FOR THE FIRST SIX MONTHS OF 1992

For the six months ended June 30th, 1992, consolidated net sales of BSN amounted to 36.3 billion French francs compared to 31.9 billion French francs for the same period last year, representing an increase of 14.0%. On a comparable consolidation basis and assuming consistent exchange rates, net sales increased by 4.2%.

For the first six months of 1992, consolidated net income amounted to 1,950 million French francs compared to 1,727 million French francs (excluding the net capital gain of 1,676 million French francs relating to the sale of BSN's Champagne operations) in 1991, a 12.9% increase.

Operating income (before interest expense and tax) amounted to 3,760 million French francs compared to 3,495 million French francs in 1991 (excluding capital gain from the sale of BSN's Champagne operations).

The breakdown of operating income by Division is as follows:

(in millions of French francs)	June 30, 1991	June 30, 1992
Dairy Products	1,009	1,281
Grocery Products - Pasta	664	511
Biscuits	536	485
Beer	435	511
Mineral Water	457	577
Containers	426	436
Divisions' Operating Income	3,517	3,801
Unallocated items	2,126	(41)

* Including a gain before tax effect of 2,148 million French francs relating to the Champagne operations.

Consolidated figures for the first six months of 1992 include, for the first time, the operating income of:

- Danone S.A. in Spain (Dairy Products)
- France Plais Cuisinés in France and Pycasa in Spain (Grocery Products-Pasta)
- W & R Jacob in Ireland (Biscuits)
- Italaque in Italy (Mineral Water)

Operating income of the Grocery Products-Pasta Division in 1991 included a non-recurring profit of some 100 million French francs.

As required by law, BSN's consolidated results for the first six months of the year were reviewed by the statutory auditors.

BSN

FRANCE'S LEADING FOOD AND BEVERAGE GROUP

Market Myths and Duff Forecasts for 1992

The recession is over, stockmarkets are in a bull trend, the US dollar will continue to recover. You did NOT read that in FullerMoney - the bi-monthly investment letter. Call John Richardson for a sample issue (once only). Tel: London 71 - 439 4951 (071) in UK. or Fax: 71 - 439 4955

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SHANGHAI TYRE & RUBBER CO., LTD.

Inaugural General Meeting Announcement

Shanghai Tyre & Rubber Co., Ltd. (the "Company") hereby announces that an Inaugural General Meeting of the Company shall be held at 2:00 p.m. (Beijing time) on 20th September 1992. The matters to be considered and approved by Shareholders are set out as follows:

1. Approval of the Memorandum of Association of Shanghai Tyre & Rubber Co., Ltd.
2. Election of the Board of Directors and the Supervisory Committee.

The following will be received and discussed by Shareholders:

3. Progress of the Company's development plan by Mr. Song Zhang, Chairman of the Board of Directors.
4. An overview of the Company's strategic development plan by Mr. Song Zhang, Chairman of the Board of Directors.

The Certificate of Authority
Shanghai Tyre & Rubber Co., Ltd.

Shareholders of Shanghai Tyre & Rubber Co., Ltd. who wish to attend the Meeting should register at the Secretariat office (Room 607) No. 97 Jiahe Road Pudong, Shanghai, with identification documents and receipt of share certificates, between 10:00 a.m. and 1:00 p.m. on 19th September 1992. Shareholders of 8 Shares who wish to attend the Meeting should register at the Secretariat office (Room 607) No. 97 Jiahe Road Pudong, Shanghai, with identification documents and receipt of share certificates, between 10:00 a.m. and 1:00 p.m. on 19th September 1992. Shareholders who cannot attend the Meeting may appoint a representative to attend the Meeting on their behalf after duly completing the form below.

IAS Adjusted Interim Results

The Board of Directors of Shanghai Tyre & Rubber Co., Ltd. announces that the unaudited consolidated results of the Group after making necessary adjustments in accordance with International Accounting Standards ("IAS") for the six month period ended June 30, 1992 are as follows:

	Six month period ended June 30, 1992	Year ended December 31, 1991
Turnover	731,360	1,083,769
Gross profit - absolute	169,683	249,080
Gross profit - percentage	23.20%	22.70%
Profit before taxation	126,485	193,325
Profit after taxation	136,370	155,821
Profit after taxation - absolute	91,255	93,702
Profit after taxation - percentage	12.50%	8.65%
Profit attributable to Shareholders	89,955	92,899

Arthur Andersen & Co. Certified Public Accountants, Hong Kong have performed a limited review on the consolidated results of the Group for the six month period ended June 30, 1992 to confirm that all material adjustments needed to restate the unaudited results in accordance with IAS have been made.

U.S. \$75,000,000

Christiania Bank og Kreditkasse

Floating Rate Subordinated Notes Due 1994

Interest Rate	5% per annum
Interest Period	14th September 1992 15th March 1993
Interest Amount per U.S. \$10,000 Note due 15th March 1993	U.S. \$285.42

Credit Suisse First Boston Limited Agent

US\$59,750,000
European Investment Bank
Floating Rate Notes due 2008
For the period from September 15, 1992 to March 15, 1993 the Notes will carry a coupon rate of 3 1/2% per annum with an interest amount of US\$ 406.34 per US\$1,000.
The relevant interest payment date will be March 15, 1993.
Agent Bank:
Banque Paribas Luxembourg
Société Anonyme

THE WARDLEY
CHINA FUND
LIMITED
Unaudited NAV per share
as at 31st August, 1992
US\$9.94

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15th September, 1992

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£175,000,000

Floating Rate Notes due 1994

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the three month period ending 10th December, 1992 has been fixed at 10.7125% per annum. The interest accruing for such three month period will be £266.35 per £10,000 Bearer Note, and £2,663.49 per £100,000 Bearer Note, on 10th December, 1992 against presentation of Coupon No. 5.

London Branch
Agent Bank

10th September, 1992

U.S. \$400,000,000

Hydro-Québec

Undated
Floating Rate Notes, Series GL,
Unconditionally guaranteed as to payment
of principal and interest by
Province de Québec

Interest Rate	3 3/4% per annum
Interest Period	14th September 1992 15th March 1993
Interest Amount per U.S. \$10,000 Note due 15th March 1993	U.S. \$170.63

Credit Suisse First Boston Limited Agent



City of Stockholm

US\$325,000,000
Floating rate notes due 1999

Notice is hereby given that the notes will bear interest at 3.125% per annum from 15 September, 1992 to 15 December, 1992. Interest payable on 15 December, 1992 will amount to US\$7.90 per US\$1,000 note and US\$78.99 per US\$10,000 note and US\$789.93 per US\$100,000 note.

Agent: Morgan Guaranty Trust Company
JPMorgan



BANQUE PARIBAS

US\$200,000,000
Undated floating rate securities

In accordance with the provisions of the securities, notice is hereby given that for the three month interest period from 15 September, 1992 to 15 December, 1992 the securities will carry an interest rate of 3.50% per annum. Interest due on 15 December, 1992 will amount to US\$8.85 per US\$1,000 security.

Agent: Morgan Guaranty Trust Company
JPMorgan

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INTERNATIONAL COMPANIES AND FINANCE

First Chicago to make \$625m special provision

By Martin Dickson
in New York

FIRST Chicago, the large Chicago-based banking company, is to take a \$625m special provision under a plan to reduce its exposure to the troubled US commercial property market through the sale of some \$2.1bn of its portfolio.

Mr Richard Thomas, chairman, said it was cutting its assets because "we have looked closely at the US commercial property market and see no recovery in the near term."

First Chicago, the 10th largest bank holding company in the US and the parent of First National Bank of Chicago, has been increasingly focusing on serving the retail and middle commercial markets and has been disposing of assets which do not fit this strategy.

The commercial property move had been expected, but details helped push First Chicago shares 1 1/4% higher yesterday morning to \$32 1/2 on the New York Stock Exchange.

The bank also said it would be adopting fair value accounting for its \$1.1bn venture capital portfolio, with a cumulative pre-tax appreciation conserva-

tively estimated at \$300m. In commercial property, the bank will segregate \$2.1bn of its lowest rated assets into a separate "held for sale" category and try to dispose of them quickly.

The pool includes \$700m of non-performing property and \$1.4bn of performing property loans. In addition to the \$625m provision, to be taken in the third quarter, the bank will allocate \$150m of existing reserves to the "held for sale" pool.

The bank said that after yesterday's action the carrying value of the pool was about

Richard Thomas: "no property recovery"

54 per cent of contractual exposure. Before the special reserve, write-downs and existing reserves for the portfolio totalled 20 per cent of contractual exposure.

Buoyant start for Italian futures market

By Haig Simonian in Milan

ITALY's government bond futures market, the Mercato Italiano dei Futures (Mif), inaugurated last Friday, could not have got off to a more dramatic start following Sunday's devaluation of the lira.

After a successful first day's trading, when volume reached almost 10,000 contracts, yesterday proved to be just as buoyant. Turnover reached 10,900 against a background of wild gyrations in the cash market as dealers digested the implications of the EMS realignment.

As expected, cash market

yields dropped. The gross yield on the most actively traded 10-year bond fell to 13.7 per cent from 14.34 per cent on Friday. Meanwhile, rates for securities repurchase agreements between the Bank of Italy and commercial banks fell to 16.08 per cent from the level of 20.81 per cent reached last Tuesday.

Mif's opening day was widely viewed as a success. With systems working well, the market traded more than half as many 10-year Italian bond futures contracts as on the London International Financial Futures Exchange (Liffe). Moreover, the average size so far of the Milan contract, at

1,250m, compares with 1,200m on Liffe. Competition between the two markets is likely to be tough. Liffe has created a family of lira products, including options on bond futures and futures on 90-day Eurodollar deposits.

While Liffe, with its wide variety of products, will continue to appeal to international banks and fund managers wanting to play sophisticated hedging and arbitrage strategies, the Mif looks set to develop a strong following among domestic banks.

Only two of the 138 participants in the new market are not Italian. Morgan Stanley is

acting as a local, while JP Morgan in Milan has broker status.

While the new market has acquitted itself well so far, dealers warn that it is early days yet. "We hope that some of the pressure on the lira and the Italian market have now been decoupled from the French referendum," says Mr Riccardo Barilieri, chief economist at JP Morgan in Milan. "The lira should now to some extent be shielded from these pressures."

However, with the French referendum on the Maastricht treaty taking place on Sunday, this week could still offer a bumpy ride for the infant Mif.

USAF contract will boost Zenith Data

By Alan Cane

ONE OF the largest computer contracts ever awarded by the US federal government has been won by Zenith Data Systems (ZDS), a wholly owned subsidiary of Groupe Bull, France's largest computer manufacturer.

The contract, for administrative computer systems, is known as "Desktop 4" and involves the supply of up to 300,000 personal computers worth potentially \$740m over three years.

The award should prove a substantial boost to the fortunes of Zenith and its parent. Bull has had several years of losses because of falling prices, narrowing profit margins and stagnant sales.

The "Desktop" contracts are awarded by the US Air Force. Zenith was awarded Desktops 1 and 2 between 1983 and 1989 when it was the computer arm of the US-owned Zenith Electronics. It failed to win Desktop 3 in 1990 after its acquisition by Groupe Bull, sparking



Bernard Pache: appointed earlier this year

fears that the US government was unwilling to place large orders with foreign-owned suppliers.

Mr Enrico Pesatori, Zenith chief executive, said he was relieved and surprised that ZDS had been given the whole contract; awards of that size were usually split between several suppliers. He said the

award was significant because:

• It would boost ZDS revenues and provide substantial extra volume, enabling the company to offer keener prices.

• It was a strong endorsement of the quality of the company's products. Earlier this year ZDS completely revamped its product line, announcing some 40 new models.

• It indicated that foreign ownership was no longer a barrier to the award of big contracts.

Sources close to the deal say that although the ZDS price was not the lowest, the air force had been impressed with the quality and reliability of the systems supplied during Desktop 1 and 2. In particular, the company supplied at short notice thousands of systems for military use during Desert Storm in Iraq.

ZDS' success will be a big relief to Bull, which is relying on the Chicago-based manufacturer for growth as the market for traditional mainframe and mini computers slackens. It expects ZDS to provide 40 per

cent of revenues by 1994.

Companies in the fiercely competitive personal computer industry are now critically dependent on large product volumes, which enables them to work on lower margins and offer lower prices.

Earlier this year Bull announced a tie-up with International Business Machines, the world's largest computer manufacturer, involving the manufacture and supply of 180,000 portable computers annually. It is understood that Mr John Akers, IBM chairman, has already visited Bull's Mr Bernard Pache, Bull's newly appointed chief, to cement the relationship.

Mr Pache, formerly head of the French coal board, was controversially appointed earlier this year when the French government decided against reappointing Mr Francis Lorent, architect of Bull's transformation plan. Mr Pache has already won a reputation for openness and approachability. "It is a case of so far, so good," said one senior Bull executive.

Trizec to reduce debts by selling stake in Rouse

By Bernard Simon in Toronto

TRIZEC, North America's biggest publicly-traded property developer, will make a modest dent in its \$39.8bn (US\$6.03bn) debt by selling the bulk of its 25 per cent interest in Rouse Company, a large US shopping-centre developer.

Trizec said yesterday that it has agreed to sell 9.5m of its 11m Rouse shares to seven US institutional investors and Rouse itself. The shares, which

represent 21.5 per cent of Rouse's equity, are being bought at US\$12 per share for a total price of \$114m. Trizec will also receive warrants to purchase 500,000 Rouse common shares at a price of \$18 each within the next five years.

The deal is expected to close within the next week. Trizec is controlled by the Toronto branch of the Bronfman family, with another 25 per cent of its equity held by Olympia & York.

Sadia turns in earnings of \$20.8m at halfway

By Bill Hinchberger in Sao Paulo

SADIA, one of Brazil's largest publicly traded groups, and a leading producer of foodstuffs for domestic and export markets, has announced profits of \$20.8m for the first half of 1992. For the whole of 1991, it recorded profits of \$45.8m.

Most of the profits this year came in the first three months, said Mr Luis Fernando Furian, executive vice-president. The

second three were dampened by the continued domestic downturn. The group is Brazil's leading producer of poultry, beef and pork products. It is second in soya output.

He has confidence in Sadia's ability to compete abroad, but complained about subsidies, particularly in Europe, calling them "the only thing we can't compete with". He said: "The first world has a neo-liberal discourse, but it is mercantile protectionism in practice."

Univa falls 82% on flat demand and price wars

By Robert Gibbens in Montreal

UNIVA, Canada's second biggest food distributor - formerly called Provigo - continued to feel the impact of price wars, higher franchise costs and flat consumer demand in the second quarter ended August 8.

Before special items, net profits fell 82 per cent to C\$3.8m (US\$3.2m) from the same quarter in 1991, on near steady sales of C\$2.1bn.

The results reflected special gains on asset disposals, partly offset by restructuring charges. After these items, earnings per share came to 21 cents,

compared with 94 cents.

First-half net profits amounted to C\$24.5m, or 26 cents a share, down 27 per cent from C\$33.7m, or 39 cents a share, a year earlier. Sales were little changed at C\$3.6bn.

Central Capital, a troubled financial services group placed under court supervision on June 15, will be 50 per cent controlled by creditors through a new holding company when restructuring of the group is completed.

The remaining 10 per cent will be held by preferred and common shareholders, including Mr Leonard Ellen and his associates, who previously had 60 per cent control.

Indonesian utility to issue bonds

By William Keeling in Jakarta

PLN, Indonesia's state-owned electricity utility, is to raise Rp300bn (\$149m) on the local capital market, the first time the company has turned to the private sector for finance.

The five-year, floating rate bonds, expected to be issued by the end of the month, will carry values ranging from Rp100,000 to Rp100m each. The interest rate for the first six months will be 19.5 per cent, about 100 basis points above average bank deposit rates.

The rate will then be set at 95 basis points with interest payments every three months.

Indonesia requires about \$30bn of investment in the power sector before the end of the decade if it is to keep pace with demand. Much of the funding is expected to be on concessional terms from the World Bank and the Asian Development Bank.

The decision to raise finance domestically has been prompted by the government's concern at Indonesia's international debt estimated at \$20bn. PLN officials say.

COMMODITIES AND AGRICULTURE

Russian oil exports warning

By Leyla Boulton in Moscow

FOREIGN TRADERS have been warned to get used to a chronic shortage of Russian oil products and prepare for a continuing reduction in exports because of Moscow's squeeze on crude deliveries to former Soviet republics with spare refining capacity.

Professor Yevgeny Khartukov, a leading oil analyst, described as "uneducated" a statement by an official at Rosneft, the state organisation which collects refined products for export, that deliveries to Japan and western Europe were being suspended because of a domestic need for fuel to drive agriculture machinery during the harvest.

The statement was later withdrawn amid confusion on world markets.

"The trend should be made clear to traders: there is an excess supply of crude hanging over the market and less and less oil products around," said Prof Khartukov, who heads the Moscow-based World Energy Analysis and Forecasting Group. Exports of products from Russia would continue, but exports from other former Soviet republics could come to a stop by the end of the year, he said.

This was because Russia was starving republics such as Ukraine of cheap crude deliveries in an attempt to prevent them re-exporting oil and refined products for hard cur-

rency. But as a result it found itself with more crude than it could cope with, while refineries in other republics had idle capacity.

The break up of the Soviet Union has strained the old integrated system, in which Russia automatically delivered excess crude to refineries in other republics.

Asked about more efficient ways of discouraging the re-exports so that Russia could meet export obligations outside the former Soviet Union, Prof Khartukov said it was politically difficult to charge other republics world prices to stop them importing more than they needed for domestic consumption. Moreover, politicians were

too ignorant and industry managers too chaotic to pursue standard crude processing arrangements between countries with excess crude and those with excess refining capacity. Under that sort of ideal solution, the oil would continue to belong to Russia even when it went to refineries in other republics, which would receive a fee for refining services.

Prof Khartukov said Russia's plan to centralise exports and limit the number of enterprises which could become involved in foreign trade were also doomed to fail. "The shift from commercial to state run (export) structures have nothing to do with the volume of products available."

Pakistan cotton crop damaged by floods

By Farhan Bokhari in Islamabad, Pakistan

THE COTTON crop in the Pakistan provinces of Punjab and Sindh has been badly damaged by floods following last week's heavy rains.

According to initial government estimates, up to 10 per cent of the crop may have been destroyed, though some officials believe losses may be up to 20 per cent. That would mean a sharp turnaround from a 35 per cent rise in cotton production, last year.

Mr Zafar Altaf, chairman of Pakistan's Agricultural Research Council, said production may decline by 1.5m bales from last year's output of 13m. The Southern province of Sindh, expected to produce 1.5m bales, has so far been worst hit. Punjab would have produced the rest.

Initial estimates show that up to 60 per cent of the Sindh crop there has been destroyed. Officials fear further damage because flood water is expected to reach Sindh tomorrow or Thursday.

The damage to cotton is expected to put pressure on Pakistan's economy. Up to 58 per cent of last year's export earnings were from cotton related products such as raw cotton, yarn, fabrics, garments, bed-wear and towels.

In addition, there are concerns that the floods have also damaged rice and sugar-cane fields. The extent of the damage is not yet clear because assessments are continuing. Other damaged crops include chillies, tomatoes and onions in southern Sindh. That may raise the prices of vegetables for consumers, some officials add.

ICCO may sell cheaply to Russia

THE International Cocoa Organisation is to discuss whether to sell cocoa from its buffer stock to Russia on favourable terms to boost world prices, Reuters reports.

But the ICCO, which starts a four-day meeting at its London headquarters today, will concentrate on administrative issues, delegates said.

Negotiations for a new economic cocoa pact under the auspices of UNCTAD in Geneva, Switzerland, will continue. Producers and consumers have still not agreed on the mechanism to be used.

Growing 'green fuel' may be alternative to set-aside



By David Richardson

On the ground floor of the building that houses the Austrian Ministry of Agriculture in Vienna, there is a small display. Its backdrop is the familiar 12-star blue flag of the European Community. Its purpose is to promote among the administrators who work in what was formerly the War Ministry the concept of Austrian membership of the EC. Detailed negotiations with the EC are to begin in 1993.

I was there to talk to Dr Adolf Hanser, who is involved in strategic planning of agricultural policies with responsibility for the promotion and exploitation of fuel oil from vegetable sources.

Although other countries are planning or building their own bio-fuel industries, it is Austria that leads the world in the development of the technology to convert rape oil into diesel fuel. Since 1982 the country has been seeking the best and cheapest method to produce vegetable-based fuel that will power conventional engines designed to run on fossil fuel.

The scientists have perfected a fuel which produces only marginally less power per litre than fossil fuel, and which is much more environmentally friendly. They believe they are ready to go into commercial production.

Indeed, a few days ago in Austria I visited the biggest bio-diesel fuel production plant in the world, with an annual capacity of 15,000 tonnes. It was in the final stages of being commissioned but will not hold the production record for long. There are similar plants under construction in other European countries, some of them scheduled to produce up to 100,000 tonnes per year. Most are based on Austrian technology.

Unlike many of our European partners, however, the British Ministry of Agriculture appears to have little enthusiasm for oilseed rape-based bio-fuel. In spite of the fact that growing the necessary crops on set-aside land is specifically permitted under the terms of the CAP reform. Officials cite the fact that the positive energy balance - after what is used in the production process is accounted for - is small and that the cost in relation to that for fossil fuel is high.

I wondered therefore why Austrian officials had reached a different conclusion.

Dr Hanser told me that his country's interest in bio-fuel began in earnest in 1982 when, like most other European countries, Austrian cereal production became surplus to domestic consumption. The country was growing nearly 1m tonnes a year more than it needed. The cost of exporting this,

however, was getting out of hand and ministry officials therefore sought alternative uses for the surplus land. Set-aside was considered but rejected. It would have been too expensive to compensate farmers for lost income over the area that it would have been necessary to take out of production, said Dr Hanser, and Austrian farmers would have hated to grow nothing but weeds. I know the feeling.

It was decided to opt for vegetable-based fuel that will power conventional engines designed to run on fossil fuel.

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Geneva meeting expected to add \$1 a barrel to crude prices

Opec output rise set to continue

By Neil Buckley

Crude prices could rise by more than \$1 a barrel after the meeting of the Organisation of Petroleum Exporting Countries which begins tomorrow in Geneva, analysts say. However, any agreement is likely to have little effect on the organisation's real oil output.

Opec allocated each member a temporary production ceiling, adding up to 22.98m barrels, at its February meeting. But since it rolled this over at its last meeting in May, allied with the provision that war-damaged Kuwait be allowed to increase production at will, it has been pumping at close to its capacity.

Observers believe Opec has good reason to reach an agreement that will allow production to continue rising gradually from about 24.5m barrels a day in the last quarter to between 24.5m and 24.7m b/d in the next. With demand in the coming quarter forecast to be at least 25m b/d, the result

would be a healthy oil price. Mr Mehdi Varzi, Opec-watchdog at Kleinwort Benson in London, believes even the traditional price "doves", notably Saudi Arabia, will support a higher price.

The fall in value of the dollar - the currency in which oil is traded - has decreased oil revenues by more than 10 per cent to some Opec members. Even wealthier members can no longer afford low prices, and are likely to push the price towards the price hawks' target of \$31 a barrel for the Opec basket of crude.

Opec has some potentially acrimonious battles ahead - principally over how it will adjust present market shares to absorb Iraq when the United Nations allows it to recommence oil exports. However, observers believe the organisation will be anxious to avoid such battles until its next meeting in November. Mr Vahan Zanyan, consultant with the Petroleum Finance Company of Washington, says many members are too preoccupied with their own domestic politics to risk political clashes with their neighbours.

Analysts believe there are therefore two possible outcomes to the Geneva meeting. Mr Joe Stanislaw, of Paris-based consultancy Cambridge Energy Research Associates, believes the 22.98m b/d quota will be rolled over for the second quarter running. The assumption, however, would be that real output would be around 24.5m b/d.

He feels that this is the most sensible solution, given that Opec may need to incorporate Iraq by the first quarter of next year and could face lower demand, meaning members would have to decrease output. "Once you formally raise the quota for everyone it becomes much harder to bring it down again," he says.

However, Mr Zanyan says Opec might make a "meaningful" increase in its production ceiling to a level slightly below its production capacity - probably 24.5m to 24.7m b/d. This would give prices a boost as it

might restore faith among the world's oil markets that Opec was taking its responsibility seriously and was likely to stick broadly to such a quota.

However, such a rise would have to be applied across the board, with a pro rata increase in each member's temporary production ceiling, otherwise it could precipitate the very row about market shares which members want to avoid.

Either option would be likely to provoke a rise in the oil price of up to \$1 a barrel after the meeting, on expectations of tight demand. Observers say the price could rise by another dollar or more depending on the severity of winter weather. Nervousness about Opec's November meeting could also put pressure on prices.

Most observers expect the net result to be the target price of \$31 for the Opec basket of crudes (equivalent to around \$33 for Brent crude) being reached before the end of the year - good news for Opec's price hawks and the oil companies.

Weather hits UK cereal harvest

By David Blackwell

BAD WEATHER last month has helped reduce this year's total UK cereals harvest to 21.5m tonnes, worth about £2.5bn to the farming community, according to two leading grain traders. This compares with 22.7m tonnes in 1991.

Most badly hit has been the wheat harvest. Delagety Agri-culture, the biggest UK grain trader, estimates 1992 wheat production at 13.3m tonnes - "a far cry from the 15m tonnes plus many were predicting two

months ago," said Mr Andrew Barnard, arable crop marketing manager.

Allied Grain, part of Associated British Foods, estimates the UK wheat harvest at 13.4m tonnes. Mr Peter Crisford, an Allied director, said last week that the wheat harvest in southern England was 75 per cent complete with the best wheat, he said, showing signs of serious risk of major deterioration or total crop loss.

In contrast, barley was the crop of the year, according to Mr Crisford. Both Allied and

Delagety put the barley harvest, mostly gathered before the bad weather, at 7.6m tonnes.

Delagety estimates UK barley demand for 1992-93 at 5.85m tonnes, but believes that there are good export prospects for the surplus 1.72m tonnes "in view of the excellent quality".

Wheat demand is put at 9.17m tonnes, leaving 1.14m tonnes for export or intervention. "The poorer quality available presents us with a major challenge in locating overseas customers," said Mr Barnard.

WORLD NUCLEAR INDUSTRIES

The FT proposes to publish this survey on October 15 1992. The Financial Times is the leading publication for nuclear energy. It provides information on nuclear energy in European countries, finance and government. It provides information on nuclear energy in European countries, finance and government. It provides information on nuclear energy in European countries, finance and government.

MARKET REPORT

GOLD eased in the afternoon from earlier highs, but spot metal was still fixed at a five-week high of \$346.25 a troy ounce. Some profit-taking crept into the market, which touched levels above \$345 at one stage after New York opened higher than expected. Gold is looking to consolidate above \$345, before a test of \$350, traders said. Dealers said the morning cuts in German interest rates were the key supportive factor, with the market ignoring dollar strength. There was little sign of heavy producer selling, and intermediate resistance was brushed off. Most BASE METALS on the LME ended the day.

London Markets

SPOT MARKETS

Gold (per troy ounce) +0.05
Silver (per troy ounce) +0.05
Platinum (per troy ounce) +0.05
Palladium (per troy ounce) +0.05
Copper (per troy ounce) +0.05
Zinc (per troy ounce) +0.05
Nickel (per troy ounce) +0.05
Tin (per troy ounce) +0.05
Lead (per troy ounce) +0.05
Aluminium (per troy ounce) +0.05
Iron (per troy ounce) +0.05
Steel (per troy ounce) +0.05
Cotton (per troy ounce) +0.05
Wool (per troy ounce) +0.05
Soybeans (per troy ounce) +0.05
Corn (per troy ounce) +0.05
Wheat (per troy ounce) +0.05
Rice (per troy ounce) +0.05
Sugar (per troy ounce) +0.05
Coffee (per troy ounce) +0.05
Tea (per troy ounce) +0.05
Hides (per troy ounce) +0.05
Fur (per troy ounce) +0.05
Rubber (per troy ounce) +0.05
Peanut oil (per troy ounce) +0.05
Sesame oil (per troy ounce) +0.05
Sunflower oil (per troy ounce) +0.05
Rapeseed oil (per troy ounce) +0.05
Olive oil (per troy ounce) +0.05
Mustard oil (per troy ounce) +0.05
Cottonseed oil (per troy ounce) +0.05
Soybean oil (per troy ounce) +0.05
Corn oil (per troy ounce) +0.05
Wheat germ oil (per troy ounce) +0.05
Rice bran oil (per troy ounce) +0.05
Sugarcane molasses (per troy ounce) +0.05
Malt (per troy ounce) +0.05
Barley (per troy ounce) +0.05
Oats (per troy ounce) +0.05
Rye (per troy ounce) +0.05
Millet (per troy ounce) +0.05
Buckwheat (per troy ounce) +0.05
Sorghum (per troy ounce) +0.05
Amaranth (per troy ounce) +0.05
Quinoa (per troy ounce) +0.05
Buckwheat (per troy ounce) +0.05
Sorghum (per troy ounce) +0.05
Amaranth (per troy ounce) +0.05
Quinoa (per troy ounce) +0.05

Compiled from Reuters

SUGAR - London POX (\$ per tonne)

Raw Close Previous High/Low
Dec 210.00 210.00 210.00 210.00
Mar 210.00 210.00 210.00 210.00
May 210.00 210.00 210.00 210.00
Sep 210.00 210.00 210.00 210.00
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Mar 210.00 210.00 210.00 210.00
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COCAOA - London POX (\$ per tonne)

Raw Close Previous High/Low
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LONDON METAL EXCHANGE

Aluminium, 99.99% purity (\$ per tonne)
Close Previous High/Low
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LONDON BULLION MARKET

Gold (per troy ounce)
Close Previous High/Low
Dec 346.25 346.25 346.25 346.25
Mar 346.25 346.25 346.25 346.25
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New York

GOLD 100 troy oz. \$/troy oz.
Close Previous High/Low
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Chicago

SOYBEANS 5,000 bu. min. cents/bushel
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COTTON 50,000 lbs. cents/lb

Close Previous High/Low
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CRUDE OIL - OPEC

Crude oil (per barrel FOB Oct)
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CRUDE OIL - OPEC

Crude oil (per barrel FOB Oct)
Close Previous High/Low

Footsie rises strongly in good trade

By Terry Byland,
UK Stock Market Editor

THERE WAS a buoyant response in the London stock market to Sunday night's concerted moves by Italy and Germany to overcome the threatened crisis in the European exchange rate mechanism. Although the equity market's opening burst of enthusiasm proved well overdue, blue chip stocks overcame disappointment with the Bundesbank's reduction of only 0.25 per cent in the Lombard rate and 0.5 per cent in discount rate and the FT-SE 100 index closed 11.2 up at 2,422.1.

Strength in the US dollar and, after some early uncertainty, in the pound, brought demand for the heavyweights

of the Footsie list. Trading volume, as measured by the Seag network, increased but market-makers warned off some early buyers by marking prices higher before the official opening of trading.

However, the German interest rate cuts were feared to be insufficient to permit similar reductions in the UK in view of sterling's vulnerability in the ERM following devaluation of the lira. Investors remained cautious ahead of the French referendum next weekend on the Maastricht treaty.

At Panmure Gordon, Mr Robin Aspinall warned: "It is at least as likely as it was a week ago that UK rates will have to rise to defend sterling's ERM parity."

Similar views were expressed

by Mr Ian Harnett at Strauss Turnbull, "sterling is not out of the woods yet" and such views were emphasised when the pound slipped below the DM2.80 mark before the Bank of England came to its defence.

Market-makers decided that the Footsie could well rise by around 50 points on the dramatic overnight news and, without waiting for news of the size of the German rate

cuts, marked shares up before the Seag system was switched on. But the weight of early buying surprised them, and the Footsie jumped by 99.5 points to 2,470.4 at the official opening.

The running was taken up in stock index futures, where trading in the Footsie September and December contracts was extremely heavy as traders struggled to take the increased demand into trading books purposefully kept tight.

As soon as share trading was under way, however, institutions began to sell into strength, unloading lines of stock of which they had been unwinding holders in the market's low volume days.

Selling was not heavy but it soon clipped the Footsie back to plus 36.3 on the day as

strategists warned clients that, while the Bundesbank's moves were a welcome move in the right direction, they did not alter Britain's currency/interest rate situation fundamentally, at least for the present.

London had sensed a strong opening on Wall Street, which came in with a gain of 41 Dow points in UK hours, and the pound began to move up against the D-mark. Good, two-way trading in UK equities restored the Footsie to a gain of more than 56 points in the final hour of business. Seag volume of 537.9m shares compared with Friday's 476.8m, worth \$938.9m in retail business.

Once again, the market was led higher by widespread gains in the dollar-earners.

Optimism among builders

BATTERED and bruised in recent weeks by hefty downgrades and announcements of trading losses and dividend cuts, the building materials and contracting sectors were among the market's best performing areas yesterday after the German interest rate reductions and RMC, two of the most important companies in the building materials sector and both heavily involved in the German market, surged ahead as some industry analysts took the view that the reduction in German rates could well mark a watershed in European interest rates.

A specialist commented: "There is a modest ground-swell of opinion that we may have passed the worst of what has been a hideous period for the building materials companies, but we still have the French referendum ahead of us and it could still go horribly wrong."

Redland shares, buffeted by recent profits downgrades and due to report earnings on October 1, jumped 24 to 387p. RMC, which last week suffered the indignity of being dropped from the FT-SE 100 index, advanced 29 to 436p. The latter is expected to announce a modest increase in its interim dividend on Thursday, along with a slight decline in half-year profits.

Utilities languish

The utilities sectors were among the handful of areas of the market not to participate in the general upturn. They are simply not fashionable on a day when the hint of interest rate cuts is in the air," said one dealer.

He added that the stocks had performed well against the market during the recent bout of currency-inspired turbulence and also amid hints of a new five-year coal agreement between the generators and British Coal.

The generators were heavily traded, with National Power closing 7 down at 254p on 5.3m shares dealt and PowerGen 6 easier at 267p on 6.5m. Manweb was the worst casualty in the electricity distribution stocks, sliding 20 to 426p. South West gave up 18 to 386p and London 13 to 385p.

The water issues had Anglian 7 cheaper at 426p, Severn Trent 6 down at 404p and Thames 4 off at 439p.

Hints of a cat in UK interest

NEW HIGHS AND LOWS FOR 1992

NEW HIGHS (USD)
BRITISH FUNDS (10) Ft 31p 1984, Tr 31p 1985, Tr 31p 1986, Tr 31p 1987, Tr 31p 1988, Tr 31p 1989, Tr 31p 1990, Tr 31p 1991, Tr 31p 1992, Tr 31p 1993, Tr 31p 1994, Tr 31p 1995, Tr 31p 1996, Tr 31p 1997, Tr 31p 1998, Tr 31p 1999, Tr 31p 2000, Tr 31p 2001, Tr 31p 2002, Tr 31p 2003, Tr 31p 2004, Tr 31p 2005, Tr 31p 2006, Tr 31p 2007, Tr 31p 2008, Tr 31p 2009, Tr 31p 2010, Tr 31p 2011, Tr 31p 2012, Tr 31p 2013, Tr 31p 2014, Tr 31p 2015, Tr 31p 2016, Tr 31p 2017, Tr 31p 2018, Tr 31p 2019, Tr 31p 2020, Tr 31p 2021, Tr 31p 2022, Tr 31p 2023, Tr 31p 2024, Tr 31p 2025, Tr 31p 2026, Tr 31p 2027, Tr 31p 2028, Tr 31p 2029, Tr 31p 2030, Tr 31p 2031, Tr 31p 2032, Tr 31p 2033, Tr 31p 2034, Tr 31p 2035, Tr 31p 2036, Tr 31p 2037, Tr 31p 2038, Tr 31p 2039, Tr 31p 2040, Tr 31p 2041, Tr 31p 2042, Tr 31p 2043, Tr 31p 2044, Tr 31p 2045, Tr 31p 2046, Tr 31p 2047, Tr 31p 2048, Tr 31p 2049, Tr 31p 2050, Tr 31p 2051, Tr 31p 2052, Tr 31p 2053, Tr 31p 2054, Tr 31p 2055, Tr 31p 2056, Tr 31p 2057, Tr 31p 2058, Tr 31p 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2136, Tr 31p 2137, Tr 31p 2138, Tr 31p 2139, Tr 31p 2140, Tr 31p 2141, Tr 31p 2142, Tr 31p 2143, Tr 31p 2144, Tr 31p 2145, Tr 31p 2146, Tr 31p 2147, Tr 31p 2148, Tr 31p 2149, Tr 31p 2150, Tr 31p 2151, Tr 31p 2152, Tr 31p 2153, Tr 31p 2154, Tr 31p 2155, Tr 31p 2156, Tr 31p 2157, Tr 31p 2158, Tr 31p 2159, Tr 31p 2160, Tr 31p 2161, Tr 31p 2162, Tr 31p 2163, Tr 31p 2164, Tr 31p 2165, Tr 31p 2166, Tr 31p 2167, Tr 31p 2168, Tr 31p 2169, Tr 31p 2170, Tr 31p 2171, Tr 31p 2172, Tr 31p 2173, Tr 31p 2174, Tr 31p 2175, Tr 31p 2176, Tr 31p 2177, Tr 31p 2178, Tr 31p 2179, Tr 31p 2180, Tr 31p 2181, Tr 31p 2182, Tr 31p 2183, Tr 31p 2184, Tr 31p 2185, Tr 31p 2186, Tr 31p 2187, Tr 31p 2188, Tr 31p 2189, Tr 31p 2190, Tr 31p 2191, Tr 31p 2192, Tr 31p 2193, Tr 31p 2194, Tr 31p 2195, Tr 31p 2196, Tr 31p 2197, Tr 31p 2198, Tr 31p 2199, Tr 31p 2200, Tr 31p 2201, Tr 31p 2202, Tr 31p 2203, Tr 31p 2204, Tr 31p 2205, Tr 31p 2206, Tr 31p 2207, Tr 31p 2208, Tr 31p 2209, Tr 31p 2210, Tr 31p 2211, Tr 31p 2212, Tr 31p 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LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

Notes	Price	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994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* Current Unit Trust prices are available from FT Cityline. For further details call 071 3 225 2120.

Ain Unit Trust Managers Limited (10001P)					
91 Revenue St	Upperville, N.S.W. 1585	192	0075	25970	
Ain Group's Assets	5,115.7	116.9	123.0	4,302.0	
Ain Group's Equity	5,168.6	171.0	181.0	4,702.0	
Ain Group's Liabilities	5,127.4	154.1	136.3	4,302.0	
Ain Group's Cash	5,127.4	154.1	136.3	4,302.0	

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Commission, Jersey
Lancashire Institute

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Realignment weakens D-Mark

THE REALIGNMENT of the European Monetary System weakened the D-Mark against most currencies yesterday, but the market remained uncertain about the immediate future for exchange rates, writes James Blyth.

The devaluation of the Italian lira and the cut in the Bundesbank's interest rates were intended to convince dealers that the EMS is a fixed system that will not disappear, whatever the outcome of this weekend's referendum in France on the Maastricht treaty.

The Bundesbank showed that it was prepared to bow to international pressure to lower interest rates if that would help a realignment of the EMS. Mr. Jim O'Neill, head of research at Swiss Bank Corp in London, said: "Although the rate cuts were small, the principle of bowing to international pressure was significant. What we saw yesterday may even be the birth of the

new European Central Bank."

Three factors could still upset the EMS structure in the short term. The first is Sunday's referendum, the shadow of which is now fully over the market. Sterling's performance against the D-Mark yesterday reflected the uncertainty, with the currency peaking at DM2.8250 overnight, but closing in London at DM2.8195, up more than 2 pence from Friday's close. If the French vote No, the pressure on sterling will be intense on Monday morning, and a rise in UK base rates may be unavoidable.

The second pressure will come if the Germans do not reduce interest rates again. The best interpretation of the Bundesbank's move yesterday was that rates had peaked. Probably the worst came from Mr. Norbert Walter, chief economist at Deutsche Bank in Frankfurt, who said there will not be another rate cut before mid-1993. Countries seeking interest rate reductions, such

as the UK, Spain and Portugal, may question the validity of a German-led system again.

The third pressure would come if the US dollar weakens again, forcing a new flight into D-Marks. The dollar peaked at DM1.5155 overnight and ended in London at DM1.4855, up 3 pence from Friday's London close. In New York it closed mildly below the London finish at DM1.4821. The narrower interest rate differential between the US and Germany caused Mr. Julian Simmonds, head of foreign exchange at Citibank, to declare that the dollar's fall has bottomed out. But the US economy remains fundamentally weak and, in the run-up to the US election, there could be pressure on the currency again.

The one European currency that was actively bought was the lira. But it closed in London at L788 per D-Mark, having opened at L784.62, raising fears that the devaluation had been too small.

£ IN NEW YORK

Day	Close	Previous Close
14	1.4855	1.4821
13	1.4821	1.4821
12	1.4821	1.4821
11	1.4821	1.4821

Forward premiums and discounts apply to the US dollar

STERLING INDEX

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

CURRENCY RATES

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

OTHER CURRENCIES

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

MONEY MARKETS

Futures move wildly

TRADING in both the sterling cash and futures markets gyrated wildly yesterday as the market tried to interpret what Germany's cut in interest rates implied for UK base rates. By the end of the day, the market had taken no firm view of whether UK base rates would rise or fall, and assumed that 10 per cent base rate would be unchanged.

Sterling futures soared at the start of London trading yesterday.

UK clearing bank base lending rate 10 per cent from May 5, 1992

day as dealers waited for the promised cut in the Bundesbank's official interest rates.

However, the announcement of a 0.25 percentage point reduction in the Lombard rate and a 0.5 percentage point lowering of the discount rate immediately depressed sterling contracts. "The market had been expecting 75 basis points off the discount rate and was disappointed," said one commercial bank dealer in London.

After rising 82 basis points from its previous close in the early morning, the December contract continued to fall from a high of 89.55 throughout the day. It closed at 89.68.

EMS EUROPEAN CURRENCY UNIT RATES

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

CURRENCY RATES

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

OTHER CURRENCIES

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

FINANCIAL FUTURES AND OPTIONS

LIVE LONG FUTURES OPTIONS

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

LIVE SHORT FUTURES OPTIONS

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

LIVE LONG FUTURES OPTIONS

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

LIVE SHORT FUTURES OPTIONS

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

LIVE LONG FUTURES OPTIONS

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

LIVE SHORT FUTURES OPTIONS

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

LIVE LONG FUTURES OPTIONS

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

LIVE SHORT FUTURES OPTIONS

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

LIVE LONG FUTURES OPTIONS

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

LIVE SHORT FUTURES OPTIONS

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

LIVE LONG FUTURES OPTIONS

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

LIVE SHORT FUTURES OPTIONS

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

LIVE LONG FUTURES OPTIONS

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

LIVE SHORT FUTURES OPTIONS

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

MONEY MARKET

Trust Funds

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

Money Market

Bank Accounts

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

Money Market

Bank Accounts

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

Money Market

Bank Accounts

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

Money Market

Bank Accounts

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

Money Market

Bank Accounts

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

Money Market

Bank Accounts

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

Money Market

Bank Accounts

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

Money Market

Bank Accounts

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

Money Market

Bank Accounts

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

Money Market

Bank Accounts

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

Money Market

Bank Accounts

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

Money Market

Bank Accounts

Day	Close	Previous Close
14	100.00	100.00
13	100.00	100.00
12	100.00	100.00
11	100.00	100.00

Forward premiums and discounts apply to the US dollar

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4 pm close September 14

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

[illegible]

Continued on next page

NASDAQ NATIONAL MARKET[illegible]

4 pm close September 14

[illegible]

The FT proposes to publish this survey on
October 28 1992,
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in Tokyo, New York,
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It will be read by senior
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FINANCIAL TIMES

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Weekend package receives qualified approval

Nikkei average gains 2 per cent but in low volume

on Sch87 to Sch739, and Lenzing, the textile manufacturer rose Sch59 to Sch654.

ISTANBUL saw its higher close for more than seven months as the 75-share index advanced 192.14 to 4,514.24 in turnover of TL330bn. Some analysts said that the rise was led by expectations of good third quarter earnings.

Finnish message for devaluation pundits

MARKETS IN PERSPECTIVE						
	% change in total currency †			% change in US dollar ‡		% change in US\$ 100 §
	1 Week	4 Weeks	1 Year	Start of 1982	Start of 1981	Start of 1980
Austria	+2.33	+5.83	-29.84	-13.09	-11.04	-8.52
Belgium	+0.57	-1.08	-7.30	-3.66	-4.63	-2.13
Denmark	-0.06	-9.69	-29.95	-35.06	-24.20	-22.02
Finland	+5.67	+11.48	-38.38	-24.82	-32.63	-30.75
France	+0.72	+1.96	-1.28	+1.51	+4.08	+7.03
Germany	-0.58	-1.89	-11.02	-15.82	-4.69	-2.03
Greece	-2.33	-4.73	-18.45	-14.47	-12.05	-10.50
Italy	-0.98	-7.45	-30.32	-26.66	-26.18	-24.05
Netherlands	+0.23	-1.31	-1.86	+1.54	+3.24	+6.16
Norway	-0.40	-9.28	-36.94	-23.65	-22.27	-20.07
Spain	-3.18	+1.18	-20.89	-15.19	-15.29	-12.97
Sweden	-4.72	-8.08	-36.80	-11.50	-10.06	-7.54
Switzerland	+1.73	+0.77	+4.47	+8.23	+10.76	+13.90
Ueland	+0.17	-0.19	-11.57	-8.03	-5.78	-5.78
EUROPE	-0.04	-0.47	-16.95	-9.85	-9.91	-8.21
Australia	-1.84	-3.49	-6.88	-11.18	-17.82	-16.18
Hong Kong	-2.71	+5.67	+37.67	+28.52	+25.78	+28.35
Japan	-0.07	+21.78	-20.04	-19.22	-21.02	-18.77
Malaysia	+0.80	+2.62	+5.56	+2.19	+8.24	+11.31
New Zealand	-2.39	-1.15	-3.51	-10.85	-12.36	-9.90
Singapore	-0.14	+3.20	-9.09	-13.86	-15.07	-12.66
Canada	-0.55	+1.75	-2.12	-3.38	-11.06	-8.56
USA	+0.65	-0.04	+8.48	+0.70	-2.08	+0.70
Mexico	-0.76	-11.92	+2.27	-11.61	-15.19	-12.78
South Africa	-4.71	-3.85	-14.32	-19.45	-29.96	-27.96

Finland, meanwhile, is getting into the habit of producing gains more apparent than real. Exports rose in 1986, but South Africa dropped from Monday on news that Ciskei soldiers had opened fire on ANC supporters. Fears of continued violence were sustained until last. Exports rose in 1986, but South Africa dropped from Monday on news that Ciskei soldiers had opened fire on ANC supporters. Fears of continued violence were sustained until last. Exports rose in 1986, but South Africa dropped from Monday on news that Ciskei soldiers had opened fire on ANC supporters. Fears of continued violence were sustained until last.

South Africa dropped from Monday on news that Ciskei soldiers had opened fire on ANC supporters. Fears of continued violence were sustained

NATIONAL AND REGIONAL MARKETS	MONDAY SEPTEMBER 14 1992						FRIDAY SEPTEMBER 11 1992						DOLLAR INDEX			
	Figures in parentheses show number of lines of contract	Day's Change %	Pound Change %	Yen Index	Dollar Index	Local Currency Index	Gross Domestic Product % chg on day	US Dollars Yield	Pound Sterling Index	Yen Index	Local Currency Index	1992 High	1992 Low	Year ago (approx)		
Australia (68)	133.13	+4.0	104.29	104.52	102.82	120.77	+3.0	4.15	127.95	96.98	100.46	96.46	117.31	153.68	124.36	151.27
Austria (15)	157.05	+3.1	123.03	123.30	121.21	121.21	+6.3	5.41	112.70	112.70	112.70	112.70	112.70	112.70	112.70	112.70
Belgium (42)	142.26	+0.7	111.48	110.98	108.88	107.36	+3.1	5.73	141.27	108.86	110.50	108.40	110.47	132.27	135.87	131.22
Canada (114)	125.90	+1.8	99.41	99.62	98.00	111.32	+0.9	3.12	124.65	96.05	97.95	93.86	110.32	142.12	124.32	137.25
Denmark (53)	207.81	+2.5	162.90	163.15	150.49	181.91	+2.0	1.76	203.23	180.48	183.48	158.98	168.67	273.70	207.81	257.93
France (102)	149.66	+2.5	102.90	102.90	102.90	102.90	+4.5	5.45	154.05	125.45	125.45	125.45	125.45	125.45	125.45	125.45
Germany (64)	136.75	+1.7	128.29	128.55	126.46	129.33	+3.8	3.47	161.01	124.07	128.40	121.87	124.64	178.75	149.08	161.85
Hong Kong (58)	116.58	+1.8	91.33	91.53	90.30	90.03	+4.1	2.54	114.75	86.42	90.10	85.50	86.50	114.62	114.24	112.03
Hong Kong (34)	230.48	+1.0	180.58	180.58	178.01	229.51	+1.1	3.69	229.12	175.78	179.09	171.97	226.26	299.55	176.34	254.54
India (18)	56.38	-0.7	117.74	118.53	118.53	118.53	+1.5	4.48	151.00	118.55	118.55	118.55	118.55	118.55	118.55	118.55
Italy (78)	56.38	-1.5	44.15	44.24	43.43	49.80	+4.6	5.41	52.82	92.94	91.91	91.20	48.92	41.90	47.87	52.82
Japan (473)	111.52	+1.1	87.36	87.56	86.14	87.56	+1.1	0.87	110.32	85.01	86.61	85.18	85.61	109.27	132.07	132.07
Malaysia (16)	237.94	-0.2	188.10	188.79	183.75	230.01	+0.3	2.78	238.04	183.71	187.16	178.71	239.20	259.47	212.93	202.07
Mexico (18)	1224.28	+0.9	596.11	596.18	543.53	417.55	+1.2	1.45	1213.33	934.97	952.57	916.67	4088.58	1769.77	1214.33	1222.76
Netherlands (24)	181.40	+0.4	126.44	126.72	124.66	123.25	+1.5	4.56	162.09	124.80	127.26	122.20	120.92	167.20	147.68	141.88
New Zealand (14)	43.69	+3.0	34.15	34.25	33.21	41.57	+1.5	5.07	44.51	32.62	32.94	31.91	41.20	48.92	41.90	47.87
Norway (22)	147.18	+3.0	115.30	115.55	113.67	117.16	+6.0	2.07	142.91	110.12	112.20	107.73	110.51	192.95	136.40	202.94
Singapore (38)	193.93	+1.1	151.93	152.26	149.77	142.88	+1.1	2.32	191.87	147.85	150.64	144.64	141.12	228.03	180.71	195.97
South Africa (61)	183.69	+2.4	143.83	144.13	141.78	184.19	+3.0	3.30	179.39	138.16	140.76	135.16	146.73	263.00	175.15	248.00
Sweden (30)	171.92	+0.4	126.44	126.72	124.66	123.25	+1.5	4.56	162.09	124.80	127.26	122.20	120.92	167.20	147.68	141.88
Switzerland (60)	171.92	+2.5	134.68	134.97	132.78	138.45	+5.1	2.32	167.22	108.95	108.97	102.71	97.18	101.72	138.79	155.85
Taiwan (34)																

RUSSIA - JAPAN - KOREA SUBMARINE CABLE PROJECT (R - J - K CABLE SYSTEM) PREQUALIFICATION NOTICE

Companies and consortia seeking information should contact Dr Y. Niiru, R-J-K IPG Chairman, at the above address. Prequalified bidders will be invited to prepare their bids in accordance with tender documents to be issued in mid November 1997.

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Amendments to indices for September 11 applied to Sweden and related regional indices. Swiss market (Zurich) closed September 14.